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The Deregulation Process of Foreign Exchange Control in Capital Transactions in Post-war Japan

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1. Deregulation of Foreign Exchange Control in Japan

- In post-war Japan, current transactions such as foreign trades along with capital transactions were placed under strict control against the background of a low level of foreign reserves and declined export competitiveness. “Foreign Exchange and Foreign Trade Control Act” and “Foreign Capital Regulation Act” were promulgated in 1949 and 1950 respectively.
- As economic growth in Japan enhanced the stabilization of its international balance, a deregulation process on foreign exchange control gradually took place, first in current transactions, and then in capital transactions.
- Firstly, in current transactions, import restrictions were lifted gradually. Liberalization ratio increased from 42% in 1960 to 92% in 1963 in which 192 import restricted items remained. In 1964, Japan accepted the obligations under Article VIII of IMF. With the progress of import liberalization, current liberalization ratio is close to 100% with 66 import restricted items including rice. The amount of foreign currencies that could be taken abroad by Japanese travelers was initially severely restricted. Now, there is no limitation on both the amount of foreign currencies to be taken abroad and the use of credit cards although the maximum amount of yen cash permitted to be taken abroad is set at five million yen.
- Secondly, foreign exchange control on capital transactions in general had been relaxed since the 1970s, which liberalization on the individual items will be explained later in details. In 1980, a new “Foreign Exchange and Foreign Trade Control Act” (referred below as the current “Foreign Exchange Act”) was enacted. Under the current “Foreign Exchange Act”, the conventional “Foreign Exchange and Foreign Trade Control Act” and the “Foreign Capital Regulation Act” are merged into one, and it basically ensures free international transactions, as compared to old rules which basically prohibited these transactions, if not specifically liberalized. Currently, there is no foreign exchange control in current transactions, and the foreign exchange controls on capital transactions have been considerably reduced. The amendment of the current Foreign Exchange Act is now proceeding as the final step towards complete liberalization in response to the world-wide trend of free capital movements.

2. Characteristics of the Deregulation Process of Foreign Exchange Control in Capital Transactions

- Looking through the history of foreign exchange control related to capital transactions in Japan, a number of characteristics could be pointed out.
- (1) First, a restrictive stance had been taken consistently on the inflow of foreign capital until early the 1980s.
- A. For the fixed exchange rate period until the early 1970s, current account deficits were not unusual even in Japan. A tight monetary policy was the basic stance taken by the authorities since the overheating of the Japanese economy was seen as the cause of the external deficits. Until the 1970s, the central government had been able to maintain a balanced budget and Japan took a policy to minimize external borrowing to finance external

deficits. Protecting the domestic industries from foreign control was the first priority and hence technology transfers from overseas through the purchase of technology patents were preferred to foreign direct investment into Japan. While most developing countries implement restrictions on imports, Japan liberalized its current transactions when became a “IMF Article VIII ” nation in 1964. On the contrary, Japan took a step by step approach in relaxing foreign exchange control on direct investments from abroad. As a result, the liberalization of direct investment inflows only started in 1980. As mentioned above, Japan, in its high growth era from the 1950s to the 1960s, did not depended on foreign capital inflow. The reasons making this possible were firstly, a high saving ratio in Japan and secondly, the fact that the high level of savings was efficiently invested mainly through the banking system.

- B. Since 1971, the industrial economies move under the floating exchange rate system. In this period, Japan had been keeping current account surpluses except in 1973 and 1979 when oil crises triggered price hikes. This shows that a high export competitiveness in Japanese major industries was maintained for a long period. Of course, the large current surpluses strengthened the value of yen. In the last 25years from 1971, the yen’s exchange rate against the US dollar appreciated from 360 yen to around 100 yen to a dollar. With the rapid appreciation of yen, the current account surplus shrank temporarily after some time lags. However, the current account surplus of Japan has been increasing until recent years despite the progress of yen appreciation. This is due to the fact that the Japanese economy has the flexibility to produce new generations of competitive export industries. In the early days, the main export industries included textile and miscellaneous manufacturing products, which were later replaced by iron and steel, fertilizer, ship building, followed by automobiles and electrical appliances. Nowadays, capital goods such as advanced machine tools and hi-tech computers accounted for more than 60% of Japan’s total exports. Under this long term current account surplus, while the authorities relaxed the regulations on capital outflows, measures restricting capital inflows (in particular short-term capital) that are likely to exacerbate speculative yen appreciation continued. Restrictions on medium-long term external borrowings by Japanese companies (called “impact loan”) and limitation on banks’ foreign currency conversions into yen remained as supplements to the monetary policy until the 1980s. Also external bond issues by Japanese companies and the investments in domestic fixed income securities (especially short-end) by non-residents were restricted on an on-and-off basis until the late 1970s.

- (2) The second characteristic of foreign exchange control in Japan in capital transactions is that the inflow and outflow of capital, both at home and from abroad, were obligated to take place via banks. Among financial institutions, authorized foreign exchange banks (*Tamegin*) are appointed according to certain criteria. This system is called “*Tamegin* policy” where all cross-border capital movements take place via *Tamagin* or authorized foreign exchange banks and as these institutions make reports on such transaction to the Bank of Japan (acting as an agent for the Minister of Finance), facilitate the compilation of balance of payments statistics and restricting external transactions in case of emergency. The exceptions are as follows, (a) trading companies were allowed, in a relatively early period (1956), to hold a certain amount of foreign currencies and open account (enter into netting transactions) between headquarters and overseas branches, and (b) securities companies were allowed in 1978 to deal with foreign exchange transactions in relations to foreign securities investments and foreign currency bond issues by their customers. General residents were not allowed to open foreign currency deposit accounts before 1972 (completely liberalized in 1980) or to hold any foreign currency deposits outside of Japan before 1978 (even now there is some restrictions in terms of purpose and quantity). However, the above *Tamegin* policy

is scheduled to be relaxed by a large extent in the ongoing review on the radical revision of the Foreign Exchange and Foreign Trade Control Act.

- (3) The third characteristic is that the authorities in Japan took a relatively cautious attitude towards the internationalization of yen for many years. While non-residents were allowed as early as in 1960 to open yen accounts at domestic banks and started the issuance of yen bonds in 1970, residents are basically not allowed to open yen account abroad even now, although they had been gradually allowed to bring yen out of Japan.
- (4) The fourth characteristic is that the liberalization of international capital movements have developed in line with the process of financial deregulation. Although this parallelism is witnessed in many other developing countries, in Japan, external liberalization in many cases had triggered domestic financial deregulation. For example, we saw a gradual liberalization progress in domestic interest rates for both deposit and lending from the late 1970s to the 1980s. What actually took place was that the liberalization of foreign currency deposits by residents (in 1980) and the liberalization of short-term foreign currency impact loan to residents (in 1979), increased the volume of financial transactions under liberalized interest rates in a short period, which paved the way for the liberalization of domestic interest rates. The internal reasons for the financial liberalization are as follows, (a) growing demands for cross-boarder financial transactions among large Japanese corporations including financial institutions, and (b) increasing financial assets accumulated in corporate and household units together with the growing demands for liberalization of interest rates amid increasing government bond issues. On top of these, there is an external reason, (c) demands for liberalization from the US and other western countries. The third factor also played a major role in destroying vested interests among the various sectors in the regulated financial community. As showed in the table attached, the discussions at the Japan-US Yen-Dollar Ad hoc Committee (1984) happened to accelerate the abolishment of the restriction on foreign currency conversion into yen, and the liberalization of interest rate on large time deposit in 1984 and 1985 respectively. Domestic interest rate movements have a close correlation with overseas interest rate trends after the recent liberalization of foreign exchange and interest rates controls. For example, domestic long-term interest rate are affected not only by domestic rate of return, inflation rate, and supply and demand situations of long-term bonds, but also affected by especially the movements of the US long-term interest rate and changes in expectation of the yen/US dollar exchange rate. At the same time, the US long-term interest rates are also often influenced by Japanese investors' purchase of the US treasury bonds.
- (5) As explained above, Japan's foreign exchange control in its capital account has had a close relationship with monetary policy and the financial liberalization process. Foreign exchange control in Japan also played a significant role in securing the soundness of the banking system and in protecting investors. Authorized foreign exchange banks together with their overseas branches had been put under a rule defining the maximum lending amount possible until 1985. Also, for a certain period of time, short-term offshore borrowing at above a certain preset interest rate was not permitted. The foreign currency reserve requirement was also implemented for a ten-year period since 1962. These regulations were aimed to stabilize the financial conditions of Japanese authorized foreign exchange banks which heavily depended on foreign currency funding from markets such as Euromarket for their overseas lending activities. While these measures worked to some extent, Japanese banks today still remain to be dependent on foreign currency funding. On the other hand, restriction on foreign currency open positions are imposed on authorized foreign exchange banks for not only the purpose of foreign exchange control, but also for

maintaining the prudential management of banks. For liberalization of bond issues by non-residents in the Tokyo capital market in early stage of liberalization, public issuers were deliberately given a priority to tap the market from a view point of protecting domestic investors. Moreover, there were cases in both internal and external liberalization which were realized with readjustment of vested interests. For example, the establishment of securities subsidiaries by banks and conversely banks by securities firms first took place overseas around 1970. This has allowed in the domestic market only in 1993. Meanwhile, it should be noted that restriction imposed on residents' opening of yen accounts abroad is partly for the purpose of preventing tax evasions.

3. Deregulation of Capital Transactions by Types

(1) Foreign Exchange System and Authorized Foreign Exchange Bank System

A. Foreign Exchange System

The foreign exchange system in post-war Japan started with a fixed exchange rate of 360 yen against the US dollar in 1949. This scheme continued until 1971 when convertibility between the US dollar and gold was ceased by the US. Under the fixed exchange rate system, we have seen (a) a gradual widening of transaction spreads and (b) the introduction of futures trading in 1959. The fixed exchange rate system (308 yen against the US dollar) was revived for a short period of time before shifting to the floating rate system in 1973. The yen has been strengthening against the US dollar over a long term although coupled with some fluctuations. It reached a level of 80 yen per US dollar in 1995, and currently fluctuating in a narrow range around 110 yen per US dollar. The requirement that forward transactions should be only for hedging purpose was abolished in 1984.

B. Authorized Foreign Exchange Bank System

- Authorized foreign exchange banks are required to report on cross-boarder foreign exchange activities they deal with and this represents one of the important pillar supporting the Japanese foreign exchange control system. The first of such bank was approved in 1949. There used to be 11 Japanese and 10 foreign licensed banks in the early days. Currently the number of authorized foreign exchange banks has increased to 350.
- These '*tamegins*' or authorized foreign exchange banks were allowed to have *correspondent* agreements with foreign banks (since 1950), and to open overseas branches and offices (since 1952), expanding considerably their business activities abroad.
- However, the Japanese authorities strongly adhere to the idea that the effect of '*tamegins*' international activities on the domestic market should be minimized. Hence, the restriction on the conversion of foreign currencies financed overseas into yen was only lifted as late as in 1984. Moreover, regulation on foreign exchange open position (setting daily the maximum positioning amounts of the combined spot and forward accounts on an individual bank basis) is effective even today, a unique rule existing only in Japan among the industrialized countries. The establishment of the Tokyo offshore market, also carry the purpose to separate external trading from domestic trading.

C. Implementing Agencies of Foreign Exchange Control in Japan

- The Minister of Finance (and sometime the Minister for International Trade and Industry) is

vested with the authority to implement, as well as the authority to plan and draft regulations and rules concerning foreign exchange control. With regards to foreign direct investment into Japan, the controlling authority lies with the Minister of Finance, and the ministers in charge of the Ministry of International Trade and Industry, and the Ministry of Agriculture and Forestry. In another aspect, the Foreign Exchange Committee is entrusted by the Ministry of Finance to investigate and review on issues concerning foreign exchange, foreign direct investment into Japan and technology transfer agreements with foreign countries.

- The Bank of Japan is vested by the Ministry of Finance with a part of the authority in granting permission. Ex ante notifications and ex post reporting are also submitted via the Bank of Japan. On the other hand, 'Tamegin' are required to perform a part of the approval and verification task, and also be responsible for the compilation of a substantial amount of statistics mainly on foreign trade.

(2) Securities Investment

A. Foreign Investment in Domestic Securities

- The "Foreign Capital Regulation Act" enforced in 1950 allowed non-residents to invest in domestic securities. However, the acquisition of Japanese securities by non-residents were initially placed under a number of restrictions. In equity investment, non-residents were placed under restrictions in two aspects: one is restriction on the type of industry and the other is on the upper limit eligible for share holding. For the stocks of non-restricted industries, the upper ceiling was initially set at 8 % , and then raised to 15 % in 1960 (while the maximum share holding by one investor was set at 5 %). The upper limit was subsequently raised several times thereafter. The maximum share holding by foreign investors in restricted industries was also raised and the number of industries placed under restrictions was also gradually reduced. In 1980, foreign investors were allowed to purchase, without any restriction, less than 10 % of any listed companies' shares through designated securities companies (currently the number of such securities companies is 133). The purchase of more than 10 % of shares is deemed as direct investment which will be described later. On the other hand, the liberalization of investment in fixed-income securities by non-residents started in 1964 for treasury bills, and 1967 for publicly offered corporate bonds. Later in order to prevent the movements of short-term foreign capital, restrictions on acquisition were implemented several times and the purchase of ordinary bonds (including long-term Japanese government bonds) by foreign investors was liberalized in 1979. Further in 1980, the purchase of domestic securities by foreign investors through designated securities companies was completely liberalized.
- Japanese private companies were allowed to issue foreign currency denominated bonds in overseas markets in 1961. On this liberalization, the financial conditions of the issuing companies and the prevailing domestic monetary conditions were taken into consideration. In 1980, residents were allowed to issue overseas securities on a conditional notification basis. The issuance of Euroyen bond by residents were liberalized in 1984, although with a ban on capital flowing back into the domestic market within 180 days after the issuance (this restrictions were gradually relaxed thereafter). This flow back restriction was aimed to protect the Tokyo capital market which is less competitive than overseas markets in terms of cost and efficiency.

B. Japanese Investment in Foreign Securities

- The history of Japanese investment in foreign securities began in 1970 when yen-denominated foreign bonds were issued in the Tokyo capital market by a non-resident (known as Samurai bonds). Only sovereign and supranational issuers could tap this market at the beginning stage. Later in 1979, foreign private companies were allowed to issue publicly offer yen-denominated bonds. (In 1984, foreign private companies were allowed to issue Euroyen bonds.) Yen-denominated bond issuance by non-residents in Tokyo were required to meet a certain screening criteria based on credit rating and financial conditions. These criteria were later relaxed and they no longer exist today. In 1980, the issuance of securities by non-residents in Japan was changed into the ex ante notification system.
- The investment in foreign securities by general residents through mutual funds was liberalized in 1970. In 1980, the purchase of foreign securities via designated securities companies was completely liberalized after several rounds of liberalization (including an increase in the number of foreign securities exchanges from where securities could be purchased).

(3) Foreign Direct Investment

A. Foreign Direct Investment Abroad

- The establishment of a local subsidiary in the U.S. by one of the large trading companies in 1951, is considered the first direct investment abroad by resident company. Thereafter, the foreign direct investment limit per residential firm was increased gradually. Since 1980, foreign direct investment abroad is changed from the approval based system into an ex ante notification based system .
Further, other than investment cases involving the following industries, processing is carried out within the day. They are (1) fishery or pearl cultivation, leather or leather products manufacturing, textile products manufacturing or processing, weapons manufacturing, the manufacturing of narcotic drugs, etc., and banking or securities industry; (2) direct investment in countries under economic sanctions; and (3) direct foreign investment by banks and securities companies.

B. Foreign Direct Investment in Japan

- Direct investments in Japan by non-residents started in 1950 with the promulgation of the Foreign Capital Regulation Act. However, for the acquisition of Japanese securities by non-residents, as illustrated in the above mentioned section on foreign investment in domestic securities, were placed under double restrictions, namely restrictions on specific industries, and restrictions on the share of securities that could be acquired by non-residents. The above two restrictions were later relaxed gradually.

- The above deregulation process could be depicted in the following diagram.

Year	Establishment of new firms (Number of Liberalized Industries)	Management participation in existing firms (Limitations on Shareholding of Non-residents)	
		Total Investor	Each Investor
1956		Restricted industries : 5% or less Non-restricted industries: 8% or less	
1960		Restricted industries : 10% or less Non-restricted industries : 15% or less	5% or less
1967	First category : 33* Second category : 17** (Note 1)	Restricted industries : 15% or less Non-restricted industries : 20% or less	7% or less ↓
1969	First category : 160 Second category : 44		
1970	First category : 447 Second category : 77	Restricted industries : 15% or less Non-restricted industries: less than 25%	
1971	First category : 453 (First category was changed to negative list → review case by case : 7) Second category : 228		Less than 10%
1980	Ex ante notification with review		
1992	Ex post reporting in principle (note 2)		

Note 1: *First category = Automatic approval for foreign share acquisition up to 50%

** Second category = Automatic approval for foreign share acquisition up to 100%

Note 2: The following still require ex ante notification,

(1) Investments in non-notified industries, or (2) Investments in countries or regions involving reciprocity issues. Non-notified industries at present consisted of fishery, mining, petroleum, leather or leather products manufacturing and industries related to defense and security (aeroplanes, weapon, explosives, space development and nuclear power). Further, for banking, insurance, gas and electric power, and securities industries, as approvals by the respective industries authorities are necessary, notifications based on the Foreign Exchange Control Act are not required.

(4) Borrowing from Abroad by Residents (Other than Authorized Foreign Exchange Bank), and External Transaction or Foreign Exchange Transactions such as Depository and Other Transactions by Residents and Non-residents

- Within lending from abroad by residential firms, there were no restriction on import related lending (with the exception of long term lending) from the beginning. On one hand, impact loans, which are lending with no specified purposes, were permitted in 1960. However, in order to prevent these lending from offsetting the effects of domestic monetary policies, impact loans were placed under quantitative restrictions. The method of restriction involved setting quota on guarantee that could be undertaken by banks for their customers who borrow from abroad. Only after 1980 is lending from abroad in foreign currencies by residents changed to ex ante notification.
- The regulation concerning residents' foreign currency deposits in authorized foreign exchange banks in Japan was lifted in 1972. Further, since 1978, general residents were allowed to purchase foreign currencies up to 3 million yen and were free to place them as deposits in both domestic and foreign financial institutions. Later, in 1980, the placement of foreign currencies deposits in domestic financial institutions was completely liberalized. On the other hand, regarding limitations on foreign currencies deposits in overseas financial institutions, the deposit ceiling for general residents was first raised to 100 millions yen in 1990 and now to 200 millions yen. However, regulations on usage remained and the placement of yen deposit is still forbidden today.
- Concerning the trading companies (*shosha*), for the purpose of facilitating their trading activities, open account between main and branch offices was introduced in 1956 and the ceiling on credit and debit was raised several times thereafter. Further in March 1996, the Ministry of Finance announced (a) the removal of the restrictions on industries that are permitted to utilize the open account system, (b) netting of credit and debit was extended to include counterparts that have a continuous transaction relationship with the enterprise group, and (c) the abolition of credit and debit limit and length of period restrictions.
- On the other hand, concerning securities companies (designated securities companies), in order to serve the convenience of their customer transactions, foreign exchange transactions were relaxed for foreign securities investments and the issuing of foreign currency debts in 1978. Concerning foreign exchange securities (*shouken gaitame*) , in March 1996, the Ministry of Finance announced liberalization on restrictions regarding (a) the extension of contracting period of exchange futures, (b) lifting the ban on currency option transaction, and (c) relaxing restrictions on swap transactions related to debt issuing.
- In 1960, non-residents started opening yen accounts in authorized foreign exchange banks in Japan. Later, there was a period when restrictions were placed upon yen accounts of non-residents in relation to domestic monetary policy, but were completely liberalized in 1980.
- However, (a) borrowing and lending, sales and purchase, and guaranteed transaction in foreign currencies between general residents, (b) borrowing and leading, and sales and purchase of foreign currencies between general residents and non-residents, and (c) issuing of yen denominated debt (Euro-yen debt) still require ex ante notification or approval.

(5) Gold Transaction and Others

- Although the imports of gold bullion initially required approval, cross-border transaction of precious metals was changed to ex ante notification in 1978 and completely liberalized in 1980.
- Purchase of foreign currencies by residents for overseas travels was initially heavily restricted. Later, the quantity restriction on foreign currency purchase was liberalized in the following sequence, that is overseas travel for business purposes, research purposes, relatives visiting and sight-seeing. In 1978, quantity restriction for the purchase of foreign currencies (including TC) was liberalized. However, the amount of yen that could be taken abroad is still limited to 5 million yen.
- For investment in real estates, after several rounds of liberalization, (a) while the acquisition of real estates by non-residents requires ex ante notification, (b) there is no longer any restrictions on the acquisition of foreign real estates by residents.

(6) Regulations under Emergency (*Yuuji Kisei*)

- Under the present Foreign Exchange Act, a special provision, called ‘regulations under emergency’ is set aside to allow for the implementation of necessary regulations under special conditions. Firstly, from the economic perspective, capital account transaction will be placed under approval basis under the following conditions,
 - (a) there are difficulties in maintaining the balance of payments,
 - (b) wide fluctuations in yen exchange rate , and
 - (c) adverse influences exerted on the domestic financial and capital markets.
- On the other hand, from the foreign relations perspective, foreign payments and other cross-border transactions will be placed under approval basis, when required by the ‘faithful implementation of agreements and international obligation’.

4. Remaining Regulations and Their Liberalization

- As shown above, under the present foreign exchange control system in Japan, most of the restrictions on transactions have been liberalized, and there are only very few remaining restrictions regarding capital transaction. In reality, capital transactions between Japan and foreign countries have been increasing rapidly since the 1970s. This is due to fact that under the global trend of an increasing free flow of international capital, capital outflows from Japan in particular, have increased with the growth of its current account surpluses. On the other hand, it is also true that the liberalization on foreign exchange control in capital transaction has played a part in facilitating the flow of capital. Japan’s capital account in 1995 was such that, direct investment outflows amounted to about 20 billion dollars, with a corresponding inflow of less than 0.1 billion dollars. Also, securities investment outflows amounted to about 100 billion dollars with a corresponding inflow of about 40 billion dollars. It is worth noting that the low level of direct investment inflows is not due to foreign exchange control. The low level of direct investment inflow merely reflects that Japan is not an attractive location to host direct investment under an economic recession, and the effect of other factors such as the high cost of land.
- Hence, the present foreign exchange control system in Japan does not constitute a barrier to capital movements. However, the international liberalization of capital transaction has

been progressing in a rapid pace. Beside the US where foreign exchange control does not exist from the start, the European countries have been relaxing foreign exchange controls in recent years together with the progress of European integration. As a result, among the developed countries, a comparatively 'strict' foreign exchange control system still remain in Japan today. Consequently, some view that this may also lead to the hollowing out of the Tokyo financial and capital markets.

- Under such a sense of crisis and the country-wide deregulation movement in Japan, the foreign exchange council of the Minister of Finance released a report in the summer of 1996 titled 'Advancement and the Building Up of An Environment for International Financial Transaction - A Radical Reform of the Foreign Exchange Control System'. Based on the policy directions as indicated in the above report, an amendment bill on the Foreign Exchange Control Act enacted in 1980 will be drawn up in this fiscal year.
- Existing control on foreign transactions and the direction of their liberalization pointed out in the above report are as follows,

(1) *Tamegin* Policy

At present, institutions other than the authorized foreign exchange banks are basically forbid from performing foreign exchange transactions. Liberalization will involve permitting new entrants to perform (a) foreign payments, and the sale and purchase of claims, (b) lending to abroad, and (c) foreign currency denominated lending, between residents and non-residents (and between residents). However, in consideration for maintaining international creditability, a monitoring framework is required to supervise the operations of these new entrants.

(2) Approvals and Ex ante Notifications Concerning Capital Transaction and Foreign Payment

At present, a small number of approval or ex ante notification requirements concerning capital transactions and foreign payments still exist even under normal condition. Liberalization will involve shifting to ex post reporting. However, ex ante notification basis will remain for a part of direct investment in consideration to their effects on the Japanese economy.

(3) Regulations under Emergency (*Yuuji Kisei*)

At present, regulations under emergency apply for the purpose such as (a) economic sanction, and (b) coping with abrupt changes in international economic environment. These measures will also be of necessity in the future. In order to ensure the effectiveness of these regulations under emergency, the obligation in reporting will also be maintained.

(4) Obligation in Reporting

Within the existing reporting system, reporting for (a) the purpose of the above mentioned (3), (b) the compilation of balance of payments statistics, (c) ensuring a smooth international financial transaction, will still be needed in the future. These involve (i) report on customer transaction of authorized foreign exchange banks, (ii) report from new entrants in foreign exchange operation and (iii) ex post report of capital transaction by the general parties involved in transaction (not via (i)and (ii)).

History of Financial Liberalization

as of 1/13/97

Year	General Issues	Deregulation of Deposit Interest Rates	Monetary Policy and Supervisory Administrations	Business Field	Other Deregulation	Financial and Capital Market
1945	The Foreign Exchange and Foreign Trade Control Law was enacted (1949)					
1950	Became a member of International Monetary Fund and World Bank (1952) Became a member of General Agreement on Tariffs and Trade (1955)					
1960	Accepted the obligations under Article VIII of IMF(1964) Became a member of Organization for Economic Cooperation and Development (1964)					
1970	Deposit Insurance System started (1970)					Start of bonds repurchase transactions (1976) Liberalization of interest rate in bills market (1979)
1980	Revised Foreign Exchange Law was enacted (1980) The Japan-US Yen-Dollar Ad hoc committee (1984) Upper limit of deposit insured raised (1986)	Negotiable certificates of deposit were introduced (1979) Interest rates on large time deposits were liberalized (1985) Commercial banks started setting the short-term prime lending rate on the basis of market rates (previously, the prime rate was linked to the official discount rate) (1989)	Revised Banking Law was enacted to allow restrictively securities business to banks (1981) The Bank of Japan introduced new monetary operation measures, including purchase of short-term (less than 1 month) bills(1988) The Bank for International Settlements adopted the capital adequacy rules for international banks (1988)	Introduciton of midium-term government bond fund (1980) Commercial banks started over-the-counter sales of long term government bonds (1983) Commercial banks entered investment advisory business by establishing subsidiaries (1985) Foreign banks entered securities business by establishing subsidiaries (1985)	Entry of Foreign banks in Trust business (1985) Admittance of Foreign securities companies to Tokyo Stock Exchange (1985)	Bond-rating organizations were established (1985) Non-collateralized call-market broking by money market dealers started (1985) Yen-denominated bankers' acceptance market opened (1985) Domestic CP market was established (1987) Stock futures market started (1988) Tokyo financial Futures market started (1989)
1990	Deposit insurance premium raised (1996)	Money Market Fund was introduced (1992) The liberalization of the interest rates on time deposits was completed (1993)	Window guidance was abandoned (1991) Securities and Exchange Surveillance Commision established (1992)	Several commercial banks entered the securities business and the trust business by establishing subsidiaries under the Financial System Reform Law. Several securities companies also entered the trust business (1993)	The ban on TV advertisement of individual bank was removed (1991) The regulations on the number of new branches were abolished (1995)	Large-lot stock trading commissions were liberalized (1994) The requirements for corporate bond issues were abandoned (1996)

Source: JCIF

History of Foreign Exchange Liberalization

as of 1/13/97 Source: JCIF

Year	Foreign Exchange and Other Markets	Exchange Rate System	Banking Businesses	Securities Investment	Direct Investment	Deposits, Loans and Others
1945	Tokyo Foreign Exchange Market opened (1952)	Fixed exchange rate regime (1949-1973)	Foreign exchange businesses of Japanese and foreign banks allowed (1949-present)	Regulation on the issuance of securities abroad by residents (1959-present)		Foreign exchange holdings and open account between main and branch offices of <i>shosha</i> were permitted (1956-present)
1950			Correspondent agreements with foreign banks allowed case by case (1950-present). However, blanket approvals were given to the larger banks since 1960).			
1960			Regulation on foreign exchange position of banks (1952 - present) Establishment of overseas branches of Japanese banks approved (1952-present)			
1970			Foreign currency reserve requirement on external liabilities of banks (1962 - 1972)			
1980	Tokyo US Dollar Call Market opened (1972)	Floating exchange rate regime (1973-present)	Regulation on the conversion of foreign currencies into yen (1968 - 1984) Reserve requirement on increase of non-resident yen balance (1972 - 1979) Regulation on the lending to overseas customers (1974 - 1985)	Regulation on the issuance of yen denominated bonds by non-residents (1970-present) Regulation on the issuance of foreign currencies denominated bonds by non-residents (1972-present) Introduction of “securities related foreign exchange” (1978)	Direct investment abroad by residents was changed to notification basis (1978)	Opening of domestic yen accounts by non-residents (1960) Opening of foreign currencies accounts in Japan by residents (1972) Restriction on repurchase transaction by non-residents was removed (1979)
1990			Liberalization of yen denominated lending to non-residents (1984) Guideline on lending to a single country (less than 40% of owned capital) (1988)	Acquisition of foreign securities by residents via designated securities companies was liberalized (1980) Acquisition of domestic securities by non-residents via designated securities companies was liberalized (1980) Restriction on Euroyen bond issuance by residents was removed (1984)	Direct investment in Japan by non-residents was changed to notification basis in principle (1980)	Borrowing of impact loan in foreign currencies by residents was changed to ex ante notification (1980) Liberalization of overseas remittance by residents (1980) Upper limit of yen taken abroad by travelers raised to 5 million (1980) Acquisition of real estates abroad by residents was liberalized (1980) Acquisition of real estates in Japan by non-residents was liberalized (1984) Restriction on the amount of foreign currencies taken abroad by travelers was lifted (1988)
1990	Tokyo Offshore Market started (1986)			Eligible standards for the issuing of foreign bonds by residents and domestic bonds by non-residents were relaxed (1992)	Direct investments abroad and in Japan changed to ex post reporting basis for most cases (1992)	Limit on foreign currencies deposits held by residents at overseas was enlarged to 200 million yen (1996)