Raising Standards for Bond Issuance and Circulation

Despite a global economic downturn, demand remains strong among bond issuers to raise funds from the Japanese market. Daiwa Securities SMBC Senior Executive Officer **Takatoshi Wakabayashi** and Executive Officer **Hisato Oiwa** talk to *Institutional Investor* about recent trends in the Japanese bond market and their company's strategy for expansion throughout Asia.

Daiwa Securities SMBC is ranked number one in a variety of league tables, particularly in the Japanese domestic straight bond field. How do you account for your company's current bond market capabilities?

Our company maintains the highest standard of capabilities in both bond issuance and circulation markets domestically. The league tables and our award as IFR's Yen Bond House of the Year for 2008 reflect this. Bond issuance and bond circulation are sort of two wheels of one cart. One wheel cannot be strong without the other. Due to our alliance with Sumitomo Mitsui Financial Group, we have a vast coverage of client network and along with the strong distribution network of Daiwa Securities, we have a great balance of the two wheels.

Thus, although the league tables and IFR award make the strength of our bond issuance more visible, our distribution network to a broad range of investor classes is actually behind it. This does not apply only to bonds. Through our strong ties and trust from our investors, we are poised to provide all sorts of services based on the needs of our clients.

With the investment environment becoming all the more severe, more companies are facing difficulties in market-making with investors. But our position has steadily improved. This is possible because we have deep and close ties with large financial firms, local banks, credit unions and smaller corporate investors, etc.

Amid the current financial turmoil, how will risk reduction among investors affect the Japanese straight bond market? And how will you cope with that?

It is impossible to drastically change this major downturn trend. Last September, we first saw a decrease in the amount of bond issuance and since October we have seen a further significant decline.

In such an environment, it's very important that investors fully understand the risks of investing in each bond. Of course, we have been actively engaged in investor relations so far. But this is becoming more and more important. We will step up those efforts.

On the other hand, there is still strong demand among bond issuers to raise funds from the Japanese market. But the situation has changed a lot. We need to work hard to make sure our clients understand the obstacles to raising capital in the current circumstances. More stringent requirements are needed to issue bonds.

Why should foreign issuers consider a Samurai bond in this risk-averse environment?

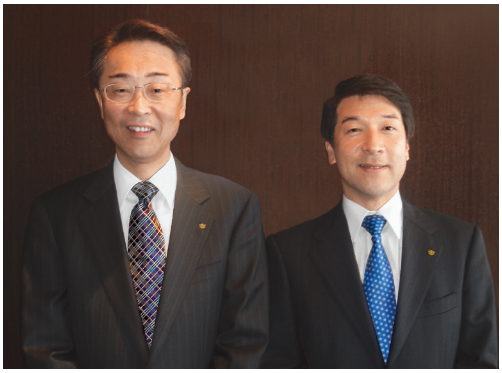
The samurai bond market has been closed since September, with Daimler AG's issue the last success. Unfortunately, issuances ceased amid defaults on samurai bonds.

But overseas financial institutions still have strong appetites for Samurai bonds. To restart the market, it would be best to lead off with issues from the highest-rated entities. Indeed, there are signs now that some overseas issuers are planning to issue their first-ever government-backed samurai bonds in Tokyo. We hope to lead manage several of those issues.

What trends do you see in Japanese government bond issuance?

Japanese government bonds have been bought very aggressively recently as investors sought risk-free assets. This has pushed 10-year yields to around 1.2 percent from about 1.5 percent, despite concerns increases in bond supply will overwhelm investor appetite in the future. Investors have been very sensitive to risks. But those yields may rise by year-end.

The Japanese government has constructed a sound, thoroughly tested framework to sell government bonds. So we're not expecting high market volatility. The government will increase bond supply by tailoring it to investors' needs, in any case.



(Left) Takatoshi Wakabayashi, Senior Executive Officer, Head of Global Investment Banking; (Right) Hisato Oiwa, Executive Officer, Head of Capital Markets and Syndicate

Market players say the Asian bond markets have not grown as much as expected in recent years. What is the future of the Asian bond markets and what is your strategy to expand your business in them?

The idea of the Asian Bond Market Initiative (ABMI) has been floated and discussed for the past several years by such organizations as the Asian Development Bank and the Japan Bank for International Cooperation, for instance. The concept of the ABMI has two objectives. One is to establish and develop a local currency bond market in each nation. The other is to establish the bond markets by attracting Asia-based money denominated in the dollar, euro and yen. Those efforts are being made simultaneously, but it takes time to achieve them.

Those initiatives have been taken by each nation in the past few years, and our company has also tried to contribute to them. This will just take time.

Asian corporate bond markets such as China's are also expected to grow rapidly. Having Hong Kong and Singapore as our main hubs in Asia, we plan to expand our partnership network in the region. One of the initiatives was our alliance with Saigon Securities last year. We are expecting the privatization of state-owned enterprises to proceed and with a keen focus on such area, we hope to gain positioning in those business opportunities.

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