

INVESTMENT ACTIVITIES AND PORTFOLIO MANAGEMENT – Experience of Japan

DEPOSIT INSURANCE CORPORATION OF JAPAN (DICJ)

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निक्षेप बीमा और प्रत्यय गारंटी निगम

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

(भारतीय रिज़र्व बैंक की संपूर्ण स्वामित्ववाली सहयोगी Wholly owned subsidiary of the Reserve Bank of India)



Presentation Topics

- 1. Introduction**
- 2-1. Four Function of DICJ**
- 2-2. Major accounts at DICJ**
- 3. The trend of the balance of liability reserve or retained loss**
- 4-1. Legal framework of fund management**
- 4-2. The scope of investment**
- 5-1. Investment Policy**
- 5-2. Investment Policy in Practice (1)**
- 5-3. Investment Policy in Practice (2)**

Presentation Topics

6. Funding

7. Risk Management

8. Structure of DICJ's Treasury Department: roles and responsibilities

9. Going Forward . . .

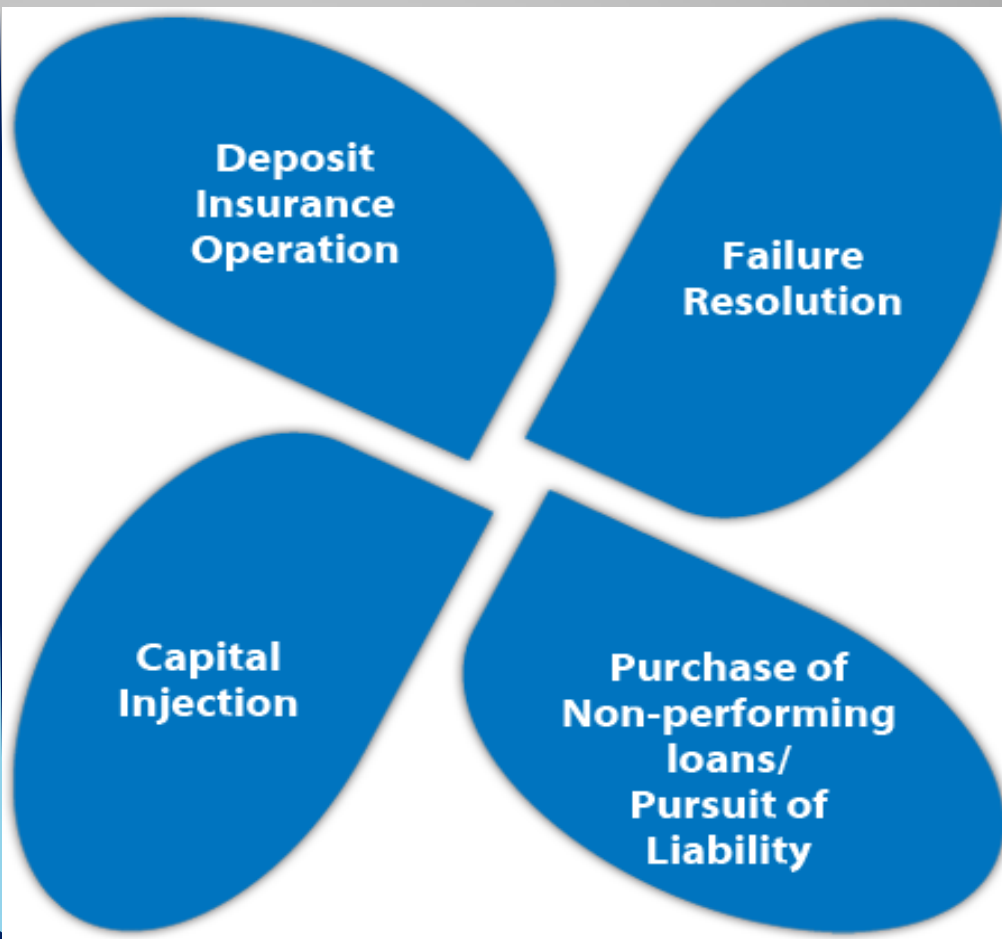
10. Wrap up and Conclusion

※ This presentation is not entirely the common view of the DICJ (including my personal interpretation and impression).

2-1. Four functions of DICJ

To protect depositors

To maintain financial
stability



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2-2. Major accounts at DICJ

8 accounts separated by operations



General Account

Today's focus

Crisis Management Account

Financial Revitalization Account

Financial Functions Strengthening Account

Financial Functions Early Strengthening Account

Damage Recovery Distribution Account

Enterprise Turnaround Initiative Corporation Account

Revitalizing Earthquake-Affected Business Account

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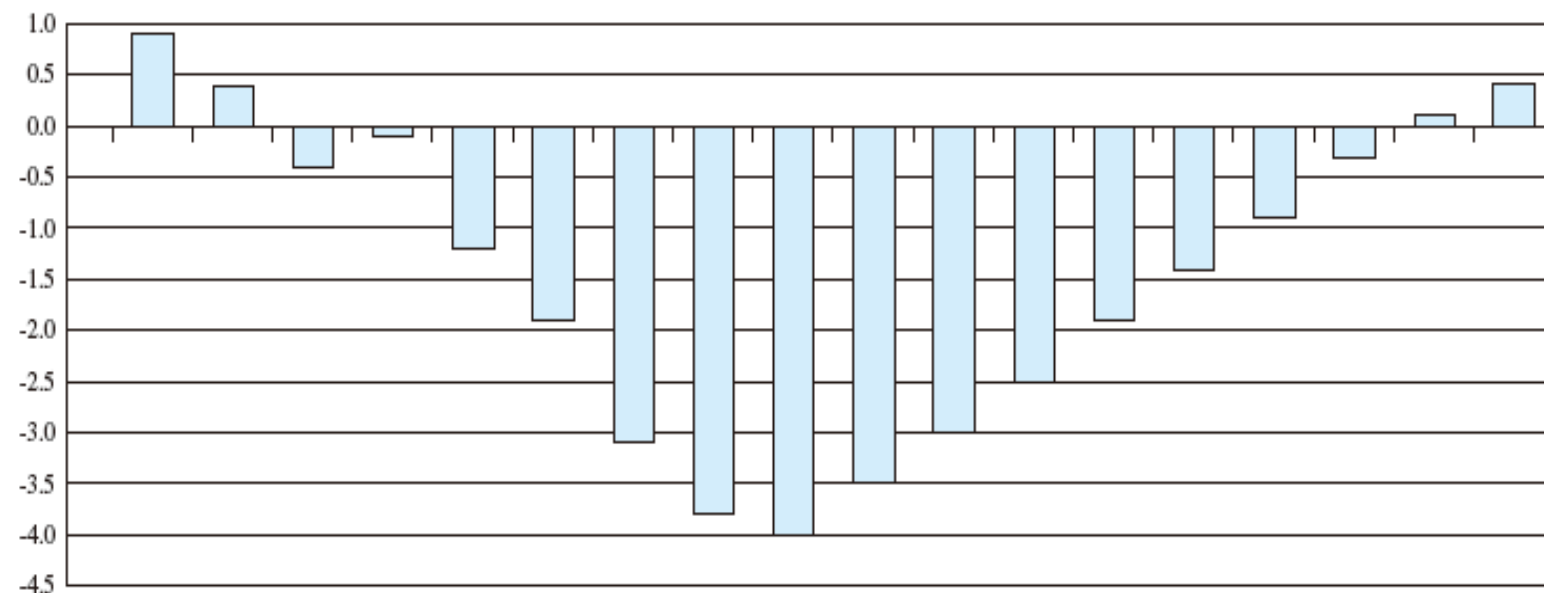


2-2. Major accounts at DICJ

- DICJ conducts multiple functions as explained in the previous slide, it runs its operations through 8 separate accounts.
- The 8 accounts established by each special operation accounting should be separated for respective operations under special accounts.
- This time, focus on the management of surplus funds in the General Account.

3. The trend of the balance of liability reserve or retained loss

(Unit: trillion yen)



(Unit: trillion yen)

Sources: DICJ, "ANNUAL REPORT 2011/2012"

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3. The trend of the balance of liability reserve or retained loss

- The balance of the liability reserves became negative in FY1996.
 - The retained loss was eliminated FY2010 for the first time in 15 years.
 - The DICJ finally reached surplus level available for investments at the end of July in 2012.
- *The target level of liability reserves is not stipulated by the law.*
 - *It is important to sustain an appropriate level of liability reserves in advance.*

4-1. Legal framework of fund management

- The funding method and the investment instruments are restrictive.**
- In compliance with laws and regulations, the funding methods and investment outlets should be ensured the right balance between safety and liquidity.**

4-1. Legal framework of fund management

DEPOSIT INSURANCE ACT

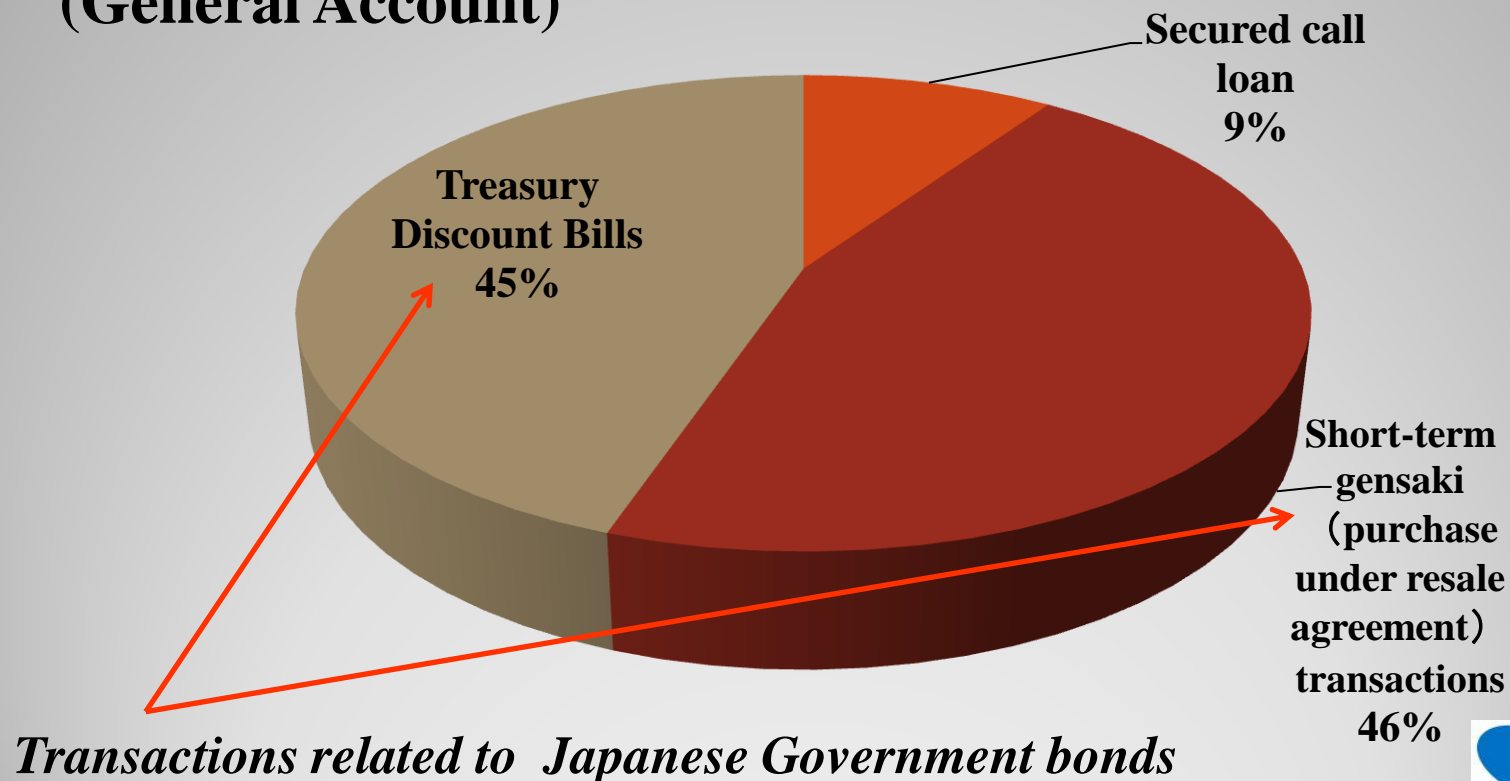
Article 43. Investment of Surplus Funds

The DICJ shall not invest surplus funds except by way of:

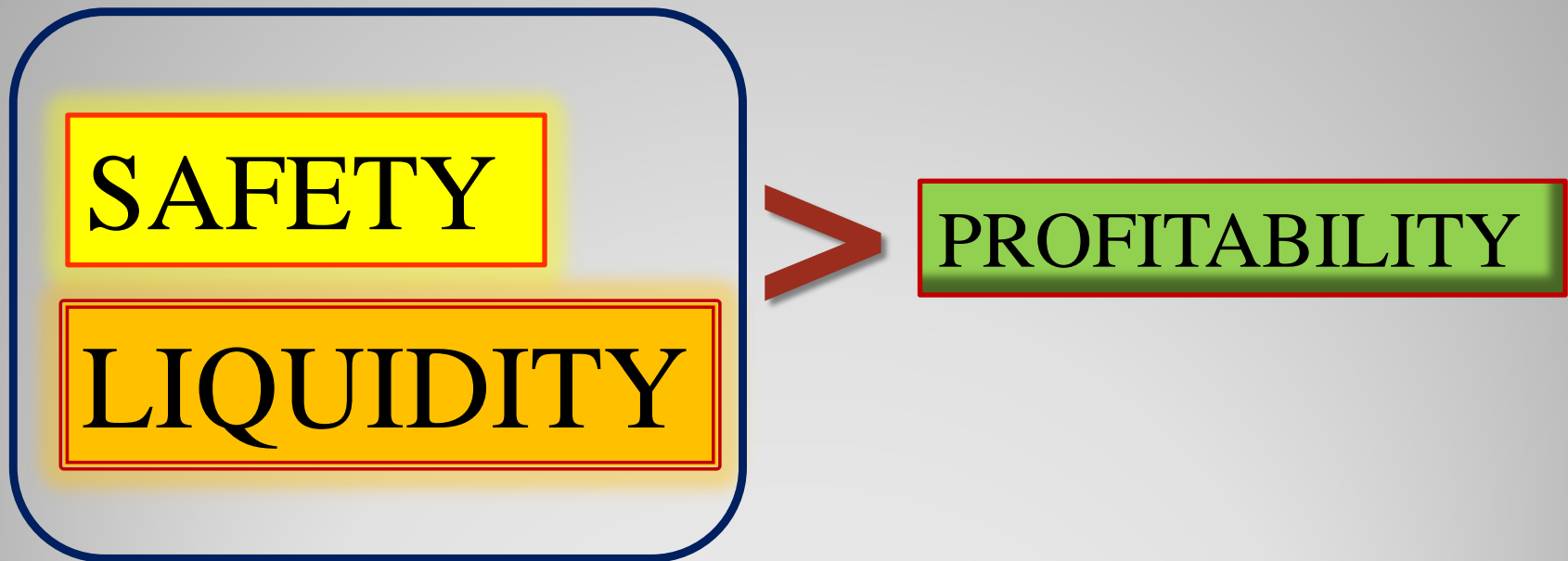
- (1) Holdings of government bonds or other securities designated by the Prime Minister and the Minister of Finance
- (2) Deposits in financial institutions designated by the Prime Minister and the Minister of Finance
- (3) Other methods stipulated in ordinances of the Cabinet Office and the Ministry of Finance

4-2. The Scope of Investment

Investment status of surplus funds as of end of 2012
(General Account)



5-1. Investment Policy



5-1. Investment Policy

- We put more focus on “safety” and “liquidity”.
- In practical, “liquidity” poses a biggest challenge.
- This is because the purpose of the General Account is to be prepared for the funds in case of resolutions which could be urgent and considerable.

5-2. Investment Policy in Practice(1)

- Putting some efforts to maintain a high liquidity.



- ◊ Our duration of assets is short term.

- ◊ Make sure to have cash ready for Resolution.

- *Resolution of failed financial institutions are to be conducted over the weekend.*

- ▽ Managed carefully to avoid any market impact.

5-3. Investment Policy in Practice(2)

- To maintain high liquidity, DICJ has to reinvest in short time.
- To maintain transparency, DICJ has to select counterparties through bidding processes in each transaction.

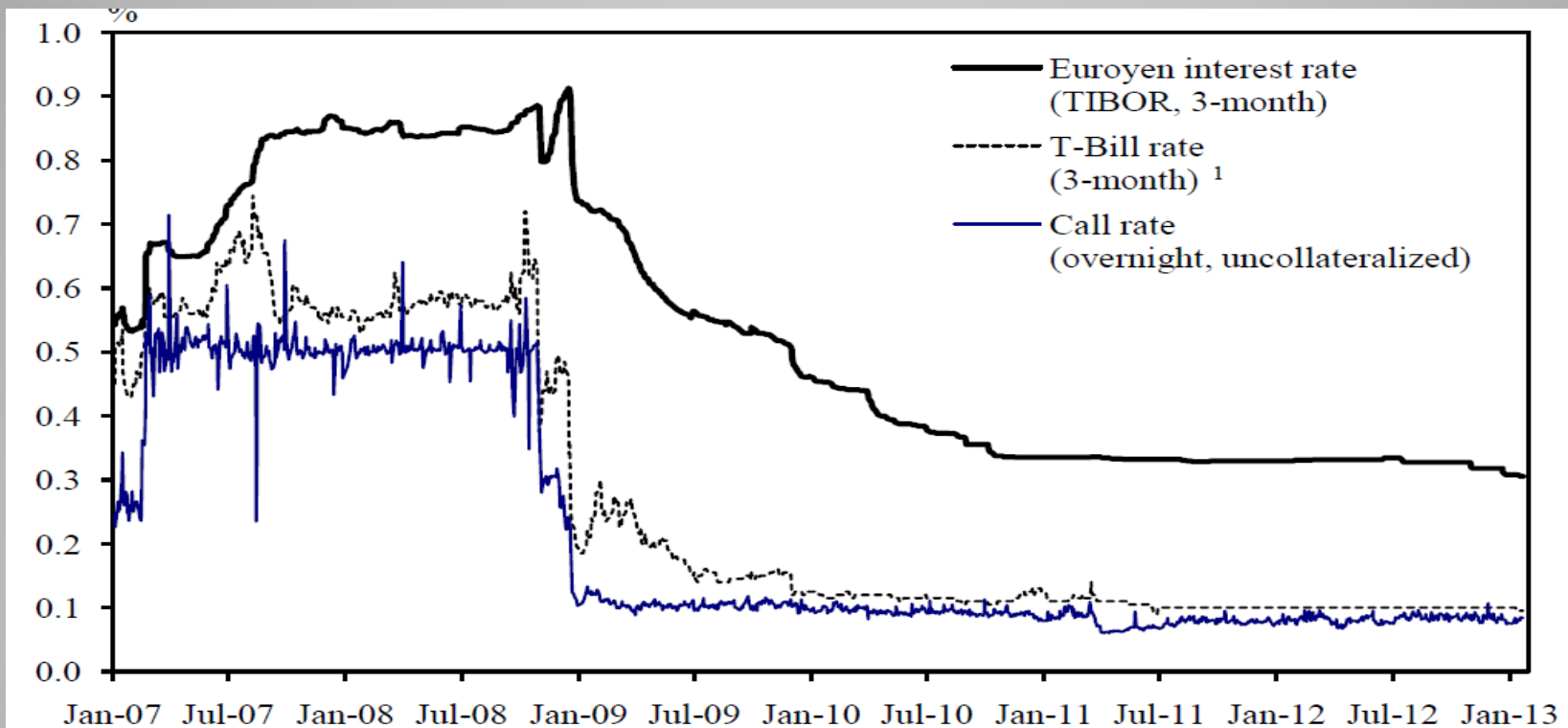


Busy !

- Fortunately, the financial market of Japan is significant in size and participants.

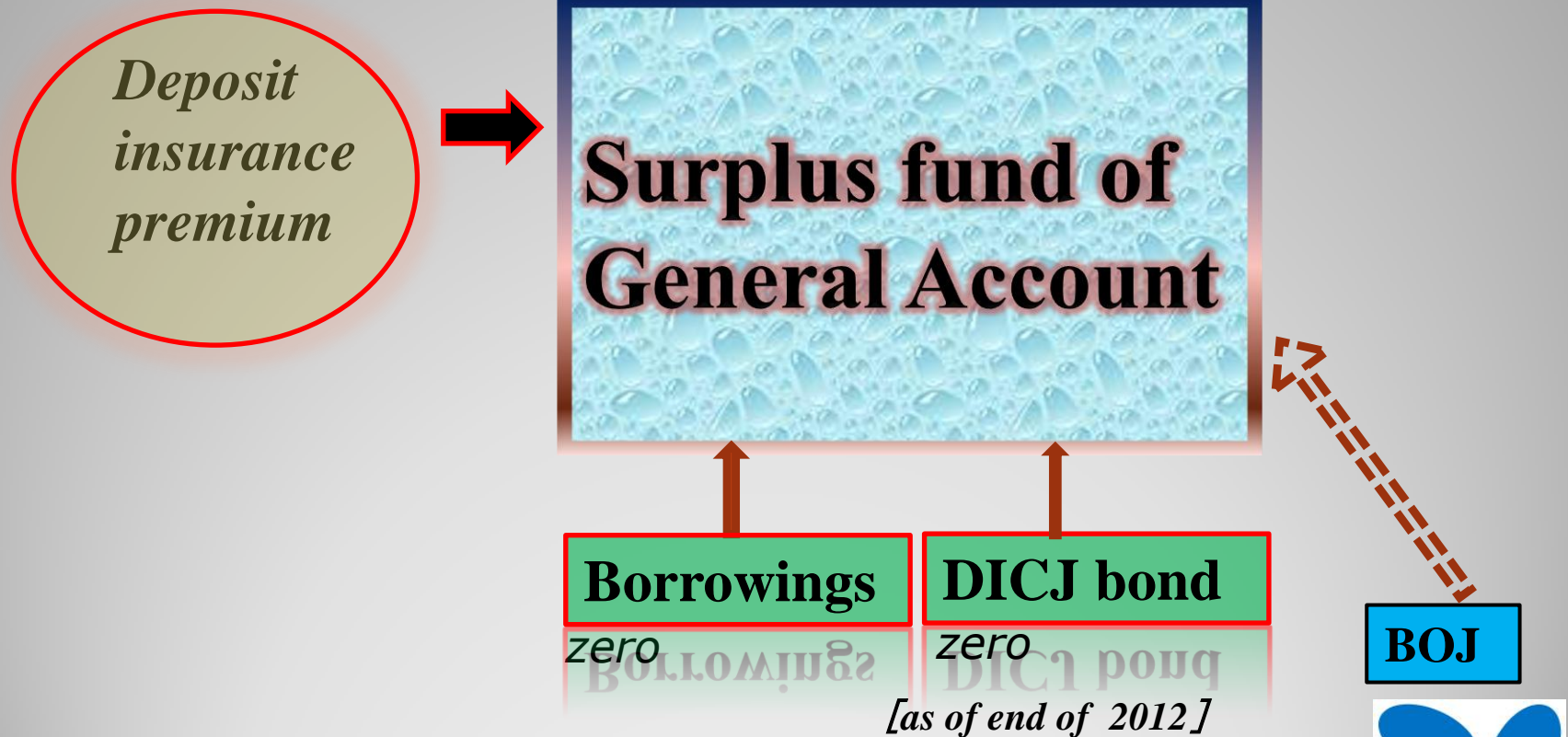
5-3. Investment Policy in Practice(2)

Short-Term Interest rate in financial market of Japan



Sources: Bank of Japan, "Monthly Report of Recent Economic and Financial Developments January 2013"

6. Funding



6. Funding

- Surplus fund is currently funded by deposit insurance premium from financial institutions.
- DICJ is authorized to raise funds in the form of borrowings(a) or DICJ bond issues(b).
 - Additionally, BOJ is available for providing backup funding to DICJ(c).
 - *The current balance for (a) (b) (c) is zero as of end of 2012.*

6. Funding

DEPOSIT INSURANCE ACT

Article 42. Borrowing and Deposit Insurance Corporation Bonds

1. Subject to the approval of the Prime Minister and the Minister of Finance, the DICJ may borrow (including refinancing) from financial institutions or other parties (except the Bank of Japan) or may issue DICJ bonds (hereinafter “bonds”) (including issuance for the purpose of refinancing bonds) when deeming it necessary for the operations stipulated under the provisions of Article 40-2, Item (1) herein.

2. Subject to the approval of the Prime Minister and the Minister of Finance, the DICJ may borrow from the Bank of Japan (including refinancing) when deeming it necessary for temporary cash flow when conducting the operations stipulated in the preceding paragraph.

7. Risk Management

The scope of investments is limited to safe assets.

The investment period is restricted to short-time.



*Market risk **we take** is limited*
*–Credit risk is **also same***

Risk management

Major investment decisions **are** conducted based on bylaws

Investment policy are approved by Council

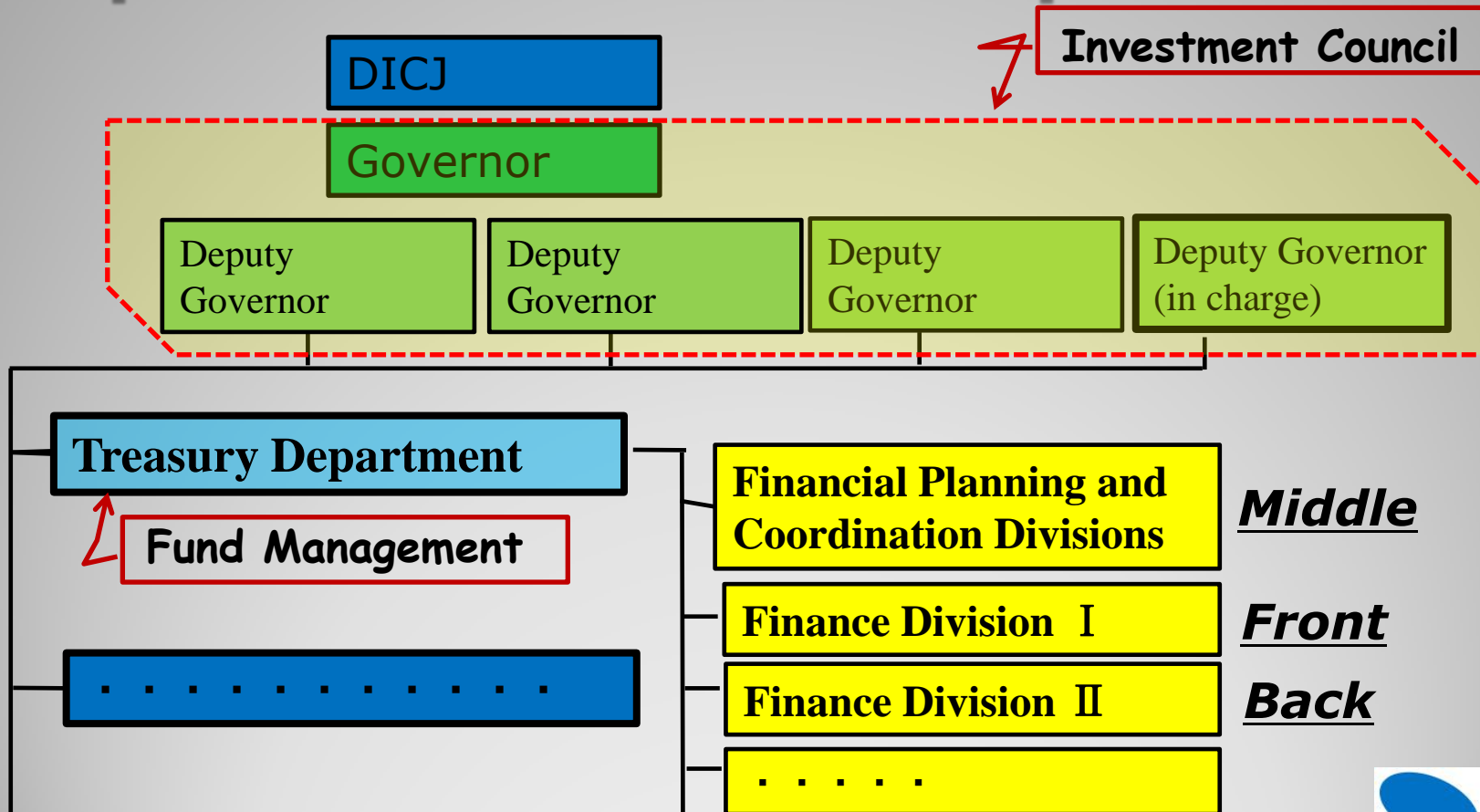
7. Risk Management

- **The overall market risk we take is very limited.**
 - *The scope of investment is limited to safe assets.*
 - *The investment period is restricted to short-term securities held up to the maturities.*
- **Credit risk is also suppressed because of strict practices to select counterparties.**
- **Risk management scheme is reflected the low-risk investment style.**

▽ *Major investment decisions, including investment policy, investment scope, investment counterparty, are conducted based on bylaws determined by the Governor.*

▽ *Investment policy or other important matters are approved by the Council which is composed of Governor and all the four Deputy Governors*

8. Structure of DICJ's Treasury Department : roles and responsibilities



8. Structure of DICJ's Treasury Department: roles and responsibilities

- Treasury Department is in charge of the operation of fund management.
- A member of Treasury Department or Deputy Governor in charge of Treasury Department has authorities to determine actual investment practices.
- We have 3 offices; *Front (conducting transactions)*, *Middle (risk management)* and *Back (clerical works)* in the department to avoid a conflict of interest.

9. Going Forward . . .

- Put more focus on “profitability”.

- ✓ *Trade-offs between “profitability” versus “safety” and “liquidity”, sometimes.*

- ✓ *The limited scope of investment.*

- challenge difficult to seek “profitability”.

- ✓ *What is Investment policy, including the rationales for pursuing “profitability”?*

- Expected factors to affect the investment policy.

- *Objectives of the system

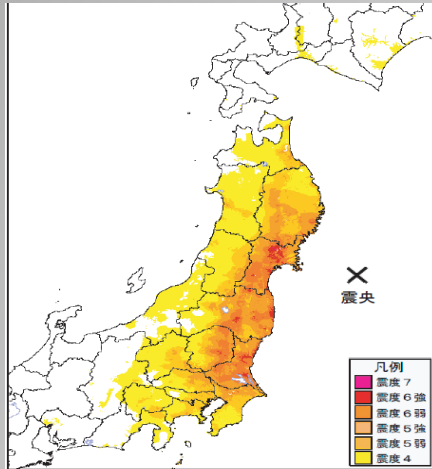
- *Size of funds

- *The financial market

10. Wrap up and Conclusion

- DICJ puts more focus on safety and liquidity.
- Maintaining liquidity is an everyday concern for staff in DICJ.
- DICJ's Risk Management is based on bylaws and the proper structure of Treasury Department.
- Challenge is for putting more focus on profitability.

*Thank you very much for your heartfelt support
for the Great East Japan Earthquake in 2011*



Sources: JAPAN METEOROLOGICAL AGENCY, "REPORT ON THE 2011 OFF THE PACIFIC COAST OF TOHOKUEARTHQU"

3.11



Sources: "DESIGN FOR JAPAN"

Thank you very much again for your attention!