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WORLD'S LARGEST PENSION FUND TO TAKE MORE RISK

New regulatory changes pose novel challenges for Japanese industry in general and its financial services sector in particular. Risk professionals will be needed to formulate risk appetite frameworks, design stress testing metrics, and mitigate investment volatility in a new and uncertain market.

Japan's Government Pension Investment Fund (GPIF) is the world's largest public-sector investor. It is managed by a team of professionals who, by all accounts, are among the most conservative fund managers in the world. Now it is under pressure to switch from a risk-averse approach to a much more aggressive investment strategy, and the ramifications may be felt in markets throughout the world.

Two-Thirds Invested In Local Bonds

With $1.25 trillion in assets, the GPIF could be a major player investing in innovative ventures across the globe, yet to date it has kept two-thirds of its assets in bonds and rarely invests overseas. It is governed by Japan's Ministry of Health, Labour and Welfare whose bureaucrats have maintained a low but steady 1.54% annualized return for the past twelve years.

From Baby Boomers to Pensioners

With retirees drawing down their savings and the GPIF paying out more in benefits than it recovers in contributions, calls for GPIF reform are beginning to be voiced—not unlike the chatter over the U.S. Social Security system's solvency issues. Accordingly, the Japanese Government has begun steps to overhaul the fund including reducing its bonds concentration and shifting focus towards stocks, infrastructure, and venture capital, all with the intent of elevating the mediocre returns.

Part of Overall Economic Reform

GPIF reform is being integrated with the government's plans to revive the Japanese economy by, among other things, radically easing the Bank of Japan's money supply. The target is to expand the base money supply by 100% over two years—as well as buying up Japanese government bonds, purchasing Exchange-Traded Funds (ETFs), and investing in Real Estate Investment Trusts (REITs).

Corporate Governance Reform

To better harmonize the Japanese corporate environment with that of western economies, the government has enacted major reforms to the Financial Instruments and Exchanges Act (FIEA), the Financial Instruments Exchange Law (FIEL), as well as to the Tokyo Stock Exchange (TSE) Rules, all of which call for greater transparency, disclosure, and reporting from major Japanese corporations akin to U.S. corporate regulatory compliance enactments. The demand for corporate governance reform also comes on the heels of two major Japanese corporate scandals in recent years.

Demand For New Risk Management Strategies

Before your organization plunges into uncharted Far East waters, consult with GreenPoint Legal's risk specialists. Our experts have the global experience and global knowledge base to assess and manage your Asian risk scenarios.

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