2009 FINANCIAL MARKET INTEGRITY INDEX

JAPAN

CFA INSTITUTE

Centre for Financial Market Integrity

CFA Charterholders and Professional Integrity

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The CFA designation is widely recognized as the designation of professional excellence within the global investment community. CFA charterholders must pass three rigorous examinations that test their understanding of a number of financial disciplines, including ethics and professional standards, and must complete several years of qualifying financial work experience to earn the charter. To retain the designation, CFA charterholders also must annually renew their pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

In 2002, when CFA Institute and the United Kingdom Society of Investment Professionals partnered, UKSIP members were adopted into CFA Institute and holders of the corresponding FSIP and ASIP designations were accepted into CFA Institute membership based on the comparable level of rigor needed to obtain these designations. Although all CFA Institute members adhere to an ethical standard, only CFA, FSIP, and ASIP designees also have displayed a level of mastery in investment principles. Therefore, this research does not include responses from all CFA Institute members but, rather, only from those who are active members with CFA, FSIP, or ASIP designations; all will be referred to collectively as "CFA charterholders" throughout this report.

ISBN 978-0-938367-19-2

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Introduction
Concept of an FMI Index

The Financial Market Integrity Index (the FMI Index) was developed by the CFA Institute Centre for Financial Market Integrity (the CFA Institute Centre) to gauge the perceptions investment professionals have about the state of ethics and integrity in six major financial services markets and how these perceptions evolve over time. Specifically, the index measures the level of integrity that investment practitioners experience in their respective markets—Canada, Hong Kong, Japan, Switzerland, the United Kingdom, or the United States—and the practitioners' beliefs in the effectiveness of regulation and investor protections to promote such integrity. This pragmatic input from working investment professionals will help raise awareness of leading issues in the capital markets and will inform the work of the CFA Institute Centre in conducting regulatory outreach and developing enhanced professional standards.

The FMI Index is distinguished from other market surveys and is proprietary in that it capitalizes on our exclusive access to seek the opinion and perspective of the CFA Institute membership (see inside cover for details). CFA charterholders are investment professionals who have earned the CFA designation and are required to adhere to a stringent code of ethics. The informed opinion of this particular respondent group offers valuable insight into the current state of ethical practices and standards in select global markets and will help to inform regulators and other financial industry thought leaders concerning potential areas for improving the investment profession.

The Financial Market Integrity Index was developed to gauge the perceptions investment professionals have about the state of ethics and integrity in financial services markets.

The CFA Institute Centre provides this report to advance the cause of ethics and integrity in financial markets.

The CFA Institute Centre provides this report on the findings of the survey (the Report) to advance the cause of ethics and integrity in financial markets through the views and opinions of trained investment professionals so as to:

- Inform investors and regulators of the perceived ethics and integrity of practitioners and the effectiveness of regulatory systems in the market;
- Encourage investors to consider whether they are likely to be treated fairly and ethically if they invest in the market;
- Help assess whether a particular country or market has specific integrity issues that need to be addressed by regulators; and
- Inform practitioners in the market about how others perceive their actions and honesty, in general, and to stimulate remedial actions on their part where appropriate.

Each FMI Index Report measures the sentiments expressed by a cross section of survey respondents concerning ethical standards and investor protections of a particular market. The ratings discussed in this Report represent the opinions of a distinct group of professionals, CFA charterholders, responding to a series of questions about their experiences with practitioners, regulations, and investor protections in Japan. This survey was specifically designed to gather the perceptions of only the Japanese market. Because respondent populations differ significantly between markets, we believe it will be more valid and informative to assess each country's report independently of the others rather than to try to make cross-country comparisons.

About the FMI Index Methodology

The FMI Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of market systems in ensuring market integrity.

The CFA Institute Centre, in consultation with Harris Interactive, developed the FMI Index to specifically reflect the perspectives and opinions of investment professionals identified as being committed to the highest level of professional ethics. CFA charterholders and holders of the ASIP and FSIP designations were asked to evaluate and rate a number of financial "market participants," including sell-side analysts, hedge fund managers, board members, and others as well as "market systems," such as market regulation and investor protections, including corporate governance, shareowner rights, and transparency. The questions relate to how market participants and market systems contribute to financial market integrity (see **Figure 1**). Respondents were asked to answer a number of questions that rate on a five-point scale the ethical behavior of these market participants and systems.[1]

FMI Index Questions and Rating Scales

Please rate the overall ethical behavior exhibited by the following groups in Japan.

1	2	3	4	5
Not Ethical at All	Slightly Ethical	Somewhat Ethical	Very Ethical	Completely Ethical

For each of the following, please rate the overall effectiveness of market systems for ensuring market integrity in Japan.

1	2	3	4	5
Not Effective at All	Slightly Effective	Somewhat Effective	Very Effective	Completely Effective

Figure 1

The ethical behavior of market participants and the effectiveness of market systems were the two dimensions of evaluation that produced the final FMI rating.

More than 2,000 professionals in six countries who hold the CFA, FSIP, or ASIP designations participated in the research for the 2009 FMI Index by taking the survey either online or by scripted telephone interview between 26 February and 13 March 2009.

To provide the most statistically reliable opinions, this Report will use in-market ratings when referring to an index rating or score, unless otherwise noted.[2] Out-of-market ratings will be used for discussion and comparisons only where noted because these results are statistically less significant as a result of smaller sample sizes.

The FMI Index is constructed to give equal weight to two dimensions of evaluation: (1) the ethics of market participants and (2) the effectiveness of market systems in ensuring market integrity. Data gathered during phone interviews were adjusted to align them with online responses so that all responses could be accurately integrated into one pool of responses. For more comprehensive information regarding the overall FMI Index methodology, please refer to the separate report available on the CFA Institute Centre's website at www.cfainstitute.org/centre.

This is an opinion-based survey, and CFA Institute makes no representations concerning accuracy or otherwise warrants use of the FMI Index for any purpose by readers.

[1] One question dealing with severity of unethical behavior or ethical lapses was an exception and listed a score of 1 as not severe at all and 5 as extremely severe. This question did not figure in the final calculations of the FMI rating.

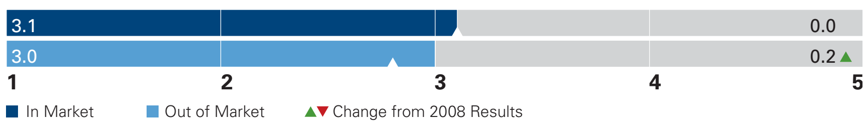
[2] In this Report, in-market ratings are those from respondents inside Japan and out-of-market ratings are those given by respondents outside Japan.

Executive Summary

Figure 2

In 2009, in-market respondents gave the Japanese market the same FMI rating (3.1) as they did in 2008.

FMI Index 2009 Japan[3]



Since our 2008 survey, financial markets around the globe have continued to unravel because of the fallout from the subprime crisis that began in the United States. Age-old lessons about risk in the financial markets have been relearned, particularly those regarding ignorance toward risk coupled with excessive leverage. Japan's tight regulatory protections have shielded the country from the massive exposure to subprime debt that other developed markets have experienced, but Japanese financial markets have been far from immune to the effects of the global financial crisis. Furthermore, Japan continues to grapple with internal market conflicts unique to the country, particularly those concerning corporate governance and shareholder rights standards.

Relative to the 2008 FMI Index, the 2009 survey of perceptions of the Japanese market reflects a slight decline in charterholders' opinions about the ethical behavior of financial market participants and a slight improvement in perceptions about the effectiveness of regulatory and investor protections in Japan. It is interesting to note that the overall results from the Japanese market are relatively stable (see **Figure 2**), although a number of other markets surveyed in 2009 saw a significant decline in the level of faith respondents have in the ethical behavior of market professionals and the effectiveness of regulatory and investor protections. It appears that Japanese professionals and market systems are perceived to be less responsible for the financial crisis now enveloping the world than are their counterparts in other markets surveyed.

Out-of-market respondents' ratings for both market participants and systems in Japan showed larger increases in 2009 than did ratings by in-market respondents. Even though out-of-market respondents showed considerably less faith in Japanese markets in 2008, their ratings for 2009 still fall below in-market respondents' ratings. This result suggests that these investment professionals desire continued progress, primarily in market systems.

Conclusions

- Unchanged from 2008, the overall ranking of 3.1 that respondents assigned to market integrity falls at mid-range on our five-point scale and indicates the need for some improvement.
- Most rating changes from 2008 to 2009 were not significant. The most pronounced changes in the FMI Index for Japan were increases in ratings for two of the market system components, legal protections for investors and regulatory systems.
- Respondents generally rated the components of ethical behavior of financial professionals higher than they rated the components of the effectiveness of regulatory and investor protections. This result is consistent with the 2008 survey.
- Based on ethics and integrity alone, 63 percent (54 percent in 2008) of in-market respondents were likely or very likely to recommend investing in Japanese markets. Those outside Japan were far less likely to make such a recommendation: Only 36 percent of out-of-market respondents said they were likely or very likely to recommend investing in Japan—down from 39 percent in 2008.
- Respondents provided open-ended comments—in addition to their survey rankings—that expressed dissatisfaction primarily with the country's regulatory system, shareowner rights, and financial transparency.
- A number of gaps exist between how those inside and outside Japan view a category of participants or a market system. In 2009, respondents outside Japan rated both market participants and systems, with few exceptions, higher than they did in 2008.

Based on ethics and integrity,
63%
of in-market respondents recommend investing in Japan.

[3] A market's overall rating is composed of the 10 factors that make up the financial professionals rating and the 7 factors that make up the market systems rating. The final, overall rating for this market was created by taking the average rating or score from two sets of questions. The first question set contained 10 equally weighted components from a set of questions pertaining to investment professionals (i.e., market participants). The second question set contained 7 equally weighted components of questions pertaining to the effectiveness of capital market systems in ensuring market integrity. These two sets of questions were averaged as a set, and then each set carried equal weighting in the final determination of the FMI Index rating for this market.

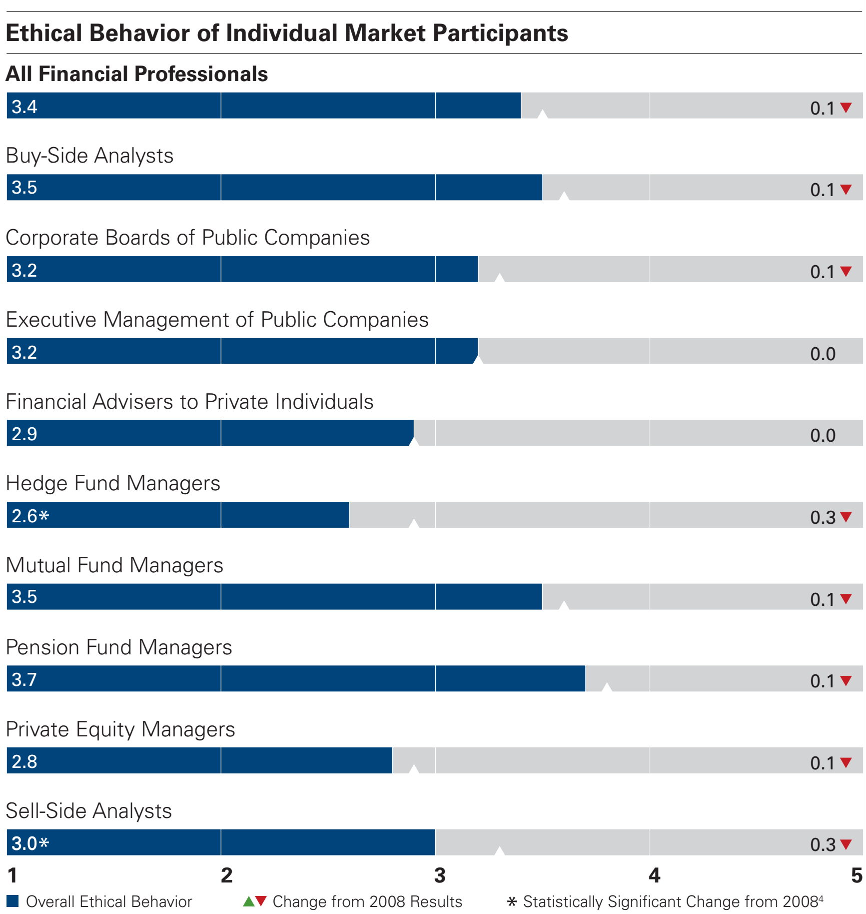
Key Findings

Ethical Behavior of Individuals

The first group of FMI Index questions asked respondents their opinions concerning the ethical behavior exhibited by various financial professionals—also referred to as "market participants"—in the market over the past year. As shown in **Figure 3**, all financial professionals, overall, received an above-average rating of 3.4. This rating is not simply an average of the nine ratings linked to the ethical behavior of specific professions but was asked separately as a control question. (The *average* of the ratings of the nine professions is 3.2.) In 2008, the overall rating for all market participants was nearly the same, at 3.5 (the average rating was unchanged at 3.2).

Figure 3

Respondents were asked to rate the ethical behavior of financial professionals as a whole as well as the ethical behavior of specific financial professionals.



The 2009 survey results indicate mostly unaltered perceptions of the ethical integrity of Japanese market professionals. The ratings for hedge fund managers and sell-side analysts were the only market participant categories showing statistically significant changes (at a 95 percent confidence level); both dropped 0.3 points from 2008 to 2009.[4] The ratings for two other categories of market participants—executive management of public companies and financial advisers—were unchanged.

Of the nine professions listed in Figure 3, the ethical behavior of hedge fund managers rated lowest at 2.6 and pension fund managers rated highest at 3.7. Hedge fund managers received the lowest rating among market participants in five of the six countries surveyed.

In addition to pension fund managers, respondents rated the integrity of mutual fund managers and buy-side analysts more highly than the control question of "all

> "*Company management's accountability to shareholders has room to improve.*"
>
> — Survey Respondent

[4] For these purposes, a 95 percent confidence level means that if we were to replicate this study 100 times, we can be confident that 95 out of 100 times the differences between the two groups would be different from zero. There is still a chance that in five of those 100 replicated studies, there is no significant difference between those two groups. Five percent represents the level of uncertainty that a surveyor is willing to accept when conducting a study with a limited number of respondents.

Ethical Behavior of Individuals
(continued)

> *"The ethical problems of Japan are not unique. I think they are endemic to the world financial system."*
>
> — Survey Respondent

financial professionals." The integrity of financial advisers and private equity managers was rated below 3.0, or less than "somewhat ethical." Corporate boards and executive management of public companies were each rated just above "average" at 3.2.

When given the opportunity to provide open-ended comments on market participant issues or behaviors they thought needed attention, respondents commented most often on executive management (13 comments), despite the relatively favorable rating for this category. Nearly a third of respondents commented on conflicts between management and shareholders. Others spoke of a lack of accountability by executive management,

“

Institutions are getting much, much better access to information than individuals.

— Survey Respondent

”

and some noted unethical behavior in general, without elaborating.

Similar to the 2008 survey, a number of respondents (12) commented on ethics in general, with some remarks expressing a general need for integrity or trust and others more specifically calling for more ethical behavior among corporations and corporate management.

Among the comments received, insider trading was a particularly notable issue last year and again this year. Several respondents simply listed “insider trading” as a matter of concern, and a few wrote that institutional investors have access to material, nonpublic information, which puts individual investors at a disadvantage.

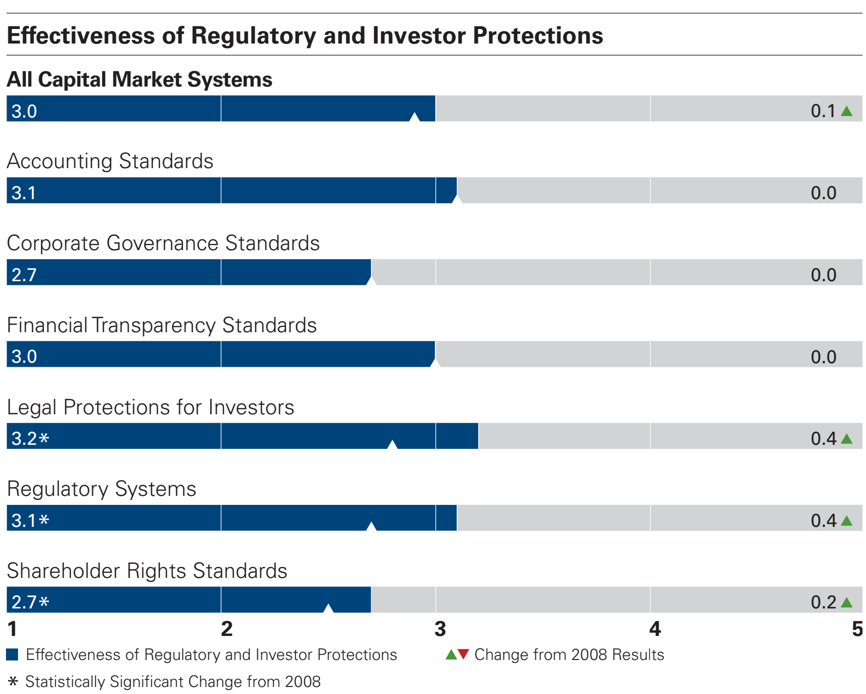
Effectiveness of Regulatory and Investor Protections

The second group of FMI Index questions asked the respondents their opinions concerning the effectiveness of regulatory and investor protections in the market (referred to as "market systems") over the past year. In the control question seeking ratings of all capital market systems, this group of investor protections received an adequate rating of 3.0. This control question rating was equivalent to the *average* rating of 3.0 earned by the group of market system questions. In our 2008 survey, this control question earned a rating of 2.9, which was somewhat higher than the average of all the market systems ratings at 2.8.

In the 2009 survey, ratings for half of the individual market systems were unchanged, and ratings for the other half showed a significant increase over 2008. As demonstrated in **Figure 4**, respondents had no overall change in sentiment toward standards for accounting, corporate governance, and financial transparency standards. There was, however, a notable increase in respondents' trust in legal protections for investors, regulatory systems, and

Figure 4

Respondents were asked to rate the overall effectiveness of capital market systems as a whole as well as the effectiveness of specific systems and standards.



> *"The status of the equity shareholder, when compared with other constituents involved with a corporation, remains low, and shareholder considerations tend to be secondary when addressing capital and other corporate issues."*
>
> — Survey Respondent

shareholder rights in Japan. The 3.2 rating that respondents assigned to legal protections for investors is, in fact, the highest given in Japan—and the most improved over 2008—of the Japanese market system components.

The notable improvement in ratings for legal protections and regulatory systems suggests that respondents may credit the Japanese regulatory and legal model for sheltering the market from the more direct effects of the subprime-related issues that bedeviled other developed markets.

Respondents are apparently still displeased, however, with shareholder rights and corporate governance standards in Japan. In 2008, the category of shareholder rights was assigned a 2.5 rating, the lowest among the market systems. Despite a 0.2 increase in 2009 to 2.7, indicating some improvement in the area, the issue of shareholder rights clearly remains a top investor concern. Corporate governance also earned a 2.7, the only other market system component in 2009 rated below the midrange of our five-point scale. Japan's lack of independent board directors, cross-shareholdings among companies, and the increased use of management-entrenched poison pill plans in recent years likely contributed to cautious investor sentiment in this category.

> *"Shareholders' class action is not available in Japan, which limits the rights of the equityholders and endangers corporate governance."*
>
> — Survey Respondent

Effectiveness of Regulatory and Investor Protections (continued)

The subject of shareholder rights also figured prominently among respondent comments. Because of the country's lack of preemption rights, Japanese shareowners are subject to dilution of their shareholdings when company management or boards issue new shares without shareholder approval. In addition, new shares are sometimes issued to undisclosed third parties as a takeover defense strategy. Raising capital in this manner can force shareholders to finance a company's takeover defense without consent.

> *"It seems that many Japanese companies do not have competitive advantages with solid business models but survive under somewhat protective regulatory policies . . . ."*
>
> — Survey Respondent

Shareholders in Japan also face challenges to their voting rights. A Japanese company has 90 days following its fiscal year's end (March 31 for most companies) to hold an annual general meeting (AGM). Traditionally, corporations have clustered these annual meetings together within the last few weeks of the 90-day period and have given little notice to shareholders. Japanese companies are allowed to send out AGM agendas and proxy forms just 14 days prior to AGMs, making it difficult for shareholders to make well-informed decisions on all of the companies they own or to attend more than a handful of annual meetings.

The "unit stock system" is also a deterrent to shareholder participation because it fosters a relatively high minimum trading cost. Under this system, most companies designate 1,000 shares as a "unit," and any entity holding less than one unit, or 1,000 shares, is not entitled to a vote.

Fifteen respondents took the time to comment on the standard of shareholder rights in Japan. Respondents addressed the prohibition of class action suits, a culture that favors corporate management over shareowners, a difficult investment environment for foreign investors, takeover defenses, and frustration with the voting season.

Fifteen respondents also commented on the state of regulation in Japan. Although a range of issues was raised, two issues garnered the most frequent comments: overregulation of corporations and a regulatory environment that favors company management over shareowners. One respondent noted that the strict regulatory environment largely kept Japan from becoming entangled in the subprime market meltdown.

A number of respondents (14) expressed concern about financial transparency in Japan. Corporate cross-shareholdings, primarily of strategically unrelated businesses, are ubiquitous in Japan. Through cross-shareholdings, Japanese companies and financial institutions are estimated to own approximately half of the market value of the shares traded on the Tokyo Stock Exchange. These cross-shareholdings are largely undisclosed to outside investors. Despite foreign and domestic investor dissatisfaction with this practice, it appears to be growing ever more entrenched in the Japanese market.

It is clear that respondents are dissatisfied with the level of financial transparency provided by Japanese companies, with many respondents calling for greater disclosure and more transparent financial statements.

Respondents also were asked two subquestions about capital market systems to further illuminate some of the reasoning behind the individual scores given to the various market system components. These subquestions do not figure in the final calculation of ratings. The first subquestion asked about the effectiveness of capital market regulation policies themselves. Specifically, we sought respondents' perceptions on whether the regulations and investor protections available in the market represent industry standard or best practice and if implemented correctly, whether those market systems would offer a solid framework for investor rights. Respondents rated these regulations and policies an average rating of 3.0 out of 5.0, an improvement over the 2008 rating of 2.7.

> *"Regulators in Japan place tight control on banks and brokers, so several people feel it [is] difficult to create innovative financial markets. Ironically, this has kept them from entering into exotic businesses and resulted in less damage from the subprime crisis in the Japanese financial world."*
>
> — Survey Respondent

The second subquestion focused on the effectiveness of implementation or enforcement of such regulations and policies. Respondents remain concerned with the enforcement of regulation in Japan; this score was 2.9 out of 5.0 in 2008 and again in 2009.

Willingness to Invest in Japan

The steep downturn across the financial markets over the past year has undoubtedly influenced attitudes about the overall safety of the financial markets in Japan. Japanese equities closed the fiscal year down approximately 35 percent year over year. Although Japan did not suffer the enormity in subprime losses experienced by other developed countries, the resulting global contraction has significantly hurt the country's financial institutions and exports. Because the FMI Index results for 2008 were already somewhat low, it is likely that investor pessimism was already reflected in these marks and did not produce as large a change in the 2009 Index as might otherwise be expected.

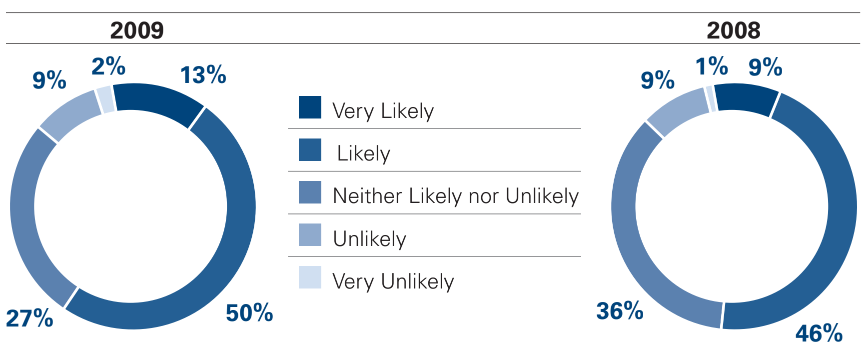
The historic meltdown of global capital markets coupled with Japan's internal financial issues relating to shareholder rights and corporate governance standards have undoubtedly influenced the perceptions of those willing to invest in the country.

In 2009, 63 percent of respondents in Japan said they were likely or very likely to recommend investing in Japan (see **Figure 5**), which is dramatically higher than the out-of-market respondents, of whom only 36 percent said they would make such a recommendation. In 2008, just more than 50 percent of respondents were likely or very likely to make such a recommendation (versus 39 percent of respondents outside Japan).

If we assume those views were based on only the two factors—ethical behavior and the effectiveness of capital

Figure 5

Likelihood of in-market respondents to recommend investing in Japan based solely on the ethical behavior of market participants and the effectiveness of capital market systems.



Based Solely on Ethical Behavior and Capital Market Systems, Would You Recommend Investing in Japan?

NOTE: Percentages may not total 100 percent because of rounding market systems—in ensuring market integrity, we can conclude that those inside Japan have gained confidence in the Japanese market. Those outside Japan, however, clearly have not. The gap between the two groups of respondents is sizeable, and the decline from 2008 in those outside Japan who are willing to invest suggests foreign investors are becoming increasingly more hesitant about Japanese markets.

The discrepancy is somewhat surprising given that out-of-market respondents often assigned ratings of integrity for individual Japanese market participants and systems similar to the ratings assigned by in-market respondents. The reason for the large difference in willingness to recommend investing in Japan is likely linked to shareholder rights and corporate governance, categories that received below-average marks from those both inside and outside Japan.

The 2.5 out-of-market rating for Japanese shareholder rights standards was the lowest given by either group of respondents in the 2009 FMI Index for Japan. This also was a top concern among survey respondents who provided open-ended comments. Several respondents also cautioned that the investment environment was even more challenging for foreign (i.e., non-Japanese) investors than for domestic investors—a perception that is evidently shared by out-of-market respondents.

Such comments likely refer to high-profile cases of foreign hedge funds that were rebuffed in their efforts to take large stakes in Japanese companies. In recent years, legal decisions that favored local interests against outside hedge funds—such as the Children's Investment Fund Foundation in its effort to take a large stake in J-POWER and Steel Partners in its effort to gain a controlling stake in condiment maker Bull-Dog Sauce Co.—have tempered enthusiasm for the Japanese markets by some investors outside Japan.

In such cases, a Western investment culture that generally places investor interests first can clash with a Japanese investment culture that often places a broader group of stakeholders, including employees and the company itself, ahead of the interests of shareowners. It is thus not surprising in such cases to see that foreign investors who are pushing for corporate governance change may be perceived from a Japanese perspective to be interlopers pushing a short-term mindset while management at the companies they approach (and sometimes seek to replace) can be seen as defending Japanese companies from outsiders.

Other Key Survey Considerations

In-Market vs. Out-of-Market Perceptions

For purposes of this FMI Index, charter-holders from five other markets we surveyed (Canada, Hong Kong, Switzerland, the United Kingdom, and the United States) were given the opportunity to rate and comment on both their own and the Japanese market. (Survey respondents were given the option to skip questions pertaining to any market about which they did not think they were knowledgeable.)

The marks given for the integrity of market participants were fairly similar between in-market respondents and out-of-market respondents. The results for market systems reveal that those inside Japan have greater confidence in their own markets than do those outside Japan. Again, however, the marks given by the two groups were largely similar. As with the market participant portion of the survey, those outside Japan ranked Japanese market systems slightly lower in 2008.

Those inside Japan gave slightly higher marks to nearly half of all market professional categories, including corporate boards and executives. In- and out-of-market respondents agreed on two categories of professionals, buy-side analysts and mutual fund managers, whereas those outside Japan assigned higher marks to financial advisers, hedge fund managers, and private equity managers. The wide gap between the two groups' perceptions in 2008 appears to have narrowed in 2009 as a result of the slightly less confidence that in-market participants showed combined with the greater confidence expressed by those outside Japan (see **Figure 6**).

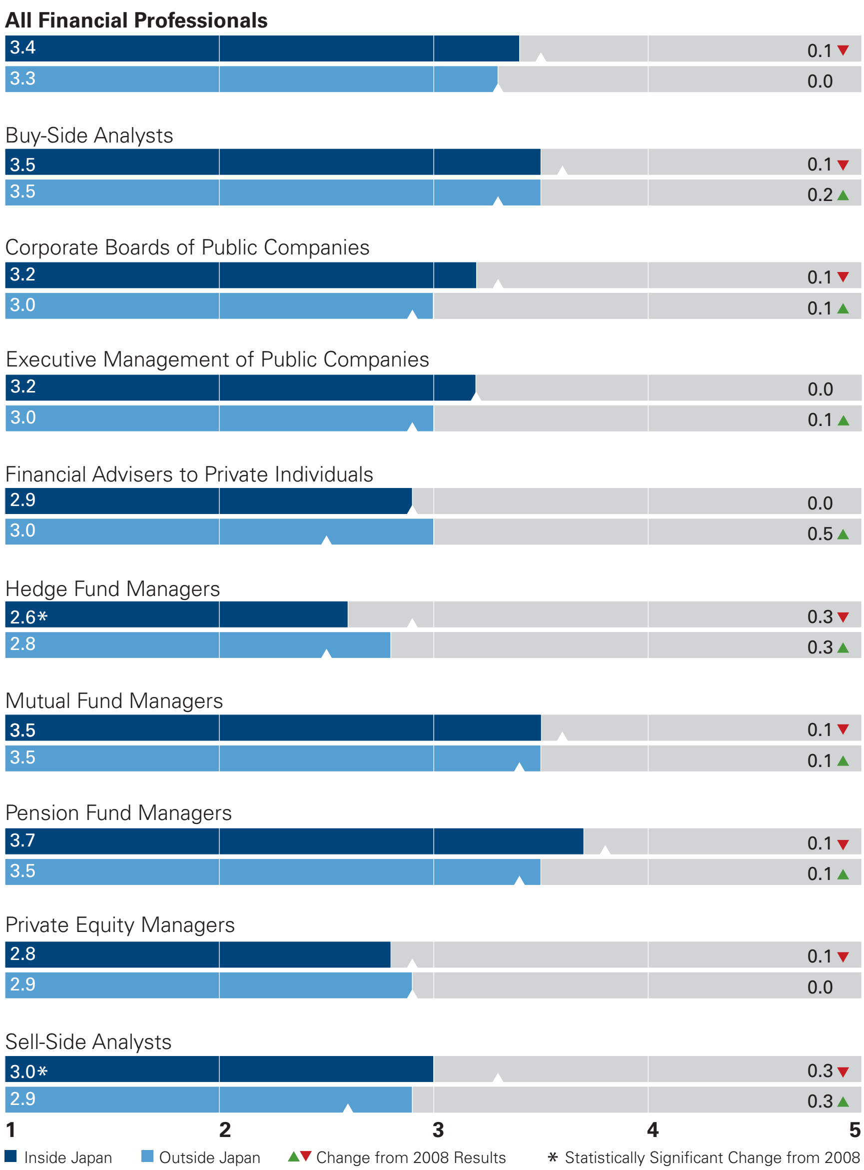
Those outside Japan rated the effectiveness of regulatory and investor protections lower than did those inside Japan. Most differences between ratings are minor, although the 0.5 point difference in the faith of legal protections for investors mirrors the lack of trust that outside investors have shown in other parts of this survey (see **Figure 7**).

Figure 6 and Figure 7 also demonstrate the changes from 2008 to 2009 in external sentiment toward Japan. Respondents outside Japan gave similar or higher ratings this year for every category of market participant as compared with last year's ratings. Interestingly, the largest ratings increases occurred in the categories with the least favorable ratings in 2008: financial advisers, hedge fund managers, and sell-side analysts.

Investors outside Japan increased their ratings for the effectiveness of regulatory and investor protections across the board from 2008 to 2009.

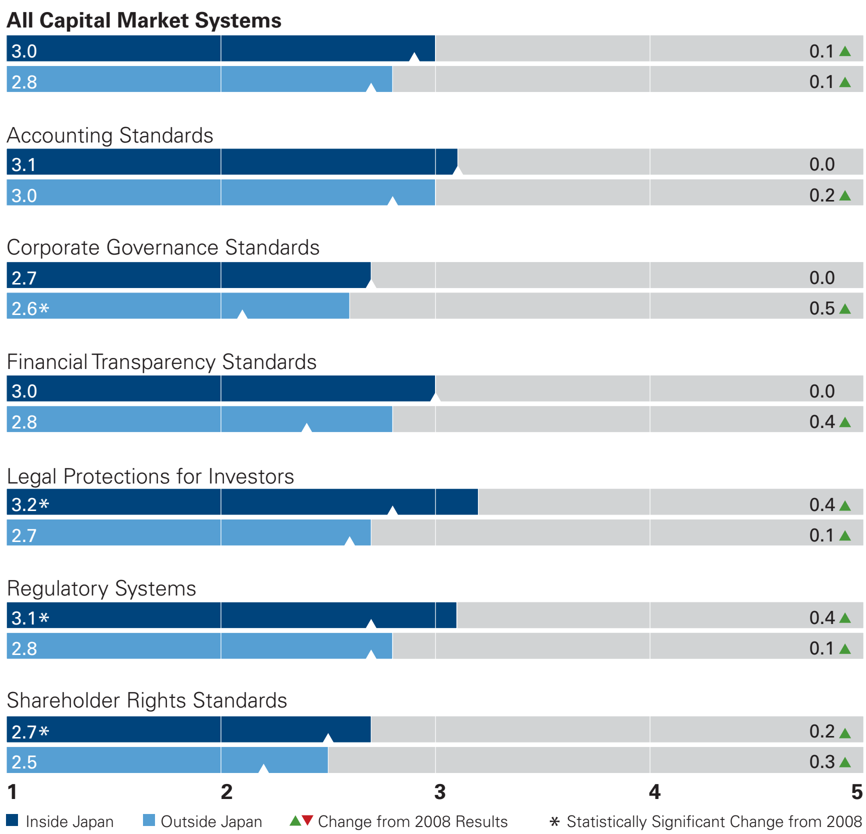
Ethical Behavior of Individual Market Participants

Figure 6



In-Market vs. Out-of-Market Perceptions
(continued)

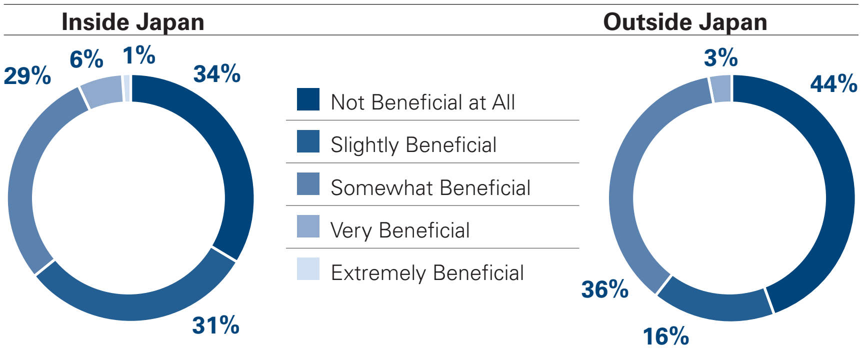
Figure 7 **Effectiveness of Regulatory and Investor Protections**



The greatest increases occurred in the categories of corporate governance and financial transparency standards. Foreign investors rated corporate governance a 2.1 in 2008, a ranking that indicated this market system was viewed as largely ineffective. In 2009, the rating increased by 0.5 points, the largest increase among all market systems. Financial transparency also received a notable increase in ratings, from 2.4 to 2.8. The rating for shareholder rights standards improved moderately from a very low rating of 2.2 in 2008 to 2.5 in 2009, but it remains the lowest rating given to any market system this year, indicating that outside investors are more displeased with this system than with any other in Japan.

Market-Specific Question

Figure 8



How beneficial are poison pills to shareholders in Japan?

NOTE: Percentages may not total 100 percent because of rounding

In the 2009 FMI Index survey we offered a new feature: the opportunity for respondents to answer a market-specific question addressing an issue of particular importance to participants in a given market. Not all surveys included a market-specific question, but in- and out-of-market respondents to the FMI Index for Japan were asked if they thought poison pills were beneficial to shareholders in Japan. Results are shown in **Figure 8**.

Poison pills were introduced by company management in Japan in recent years in reaction to fears that hostile takeovers would increase as a result of shareholder activism pushing for more accountable boards and greater shareholder rights.

A third of those inside Japan and more than 40 percent of those outside Japan apparently think poison pills are of no benefit to Japanese company shareholders. A very small percentage (7 percent) of in-market respondents and just 3 percent of out-of-market respondents think that poison pills are beneficial to shareholders. Twenty-one respondents provided comments on this issue, many of whom suggested that poison pills only benefit management and are detrimental to shareholders. Others believe that poison pills will strengthen cross-shareholding among corporations. Some respondents said it is too early to tell whether poison pills will be effective.

Comments of Survey Respondents

More than 100 respondents offered comments to expand on their opinions about the current state of financial market integrity in Japan. Respondents were given opportunities in connection with several of the survey questions to provide written comments about their thoughts and concerns. In particular, additional comments were solicited in the survey section concerning individual market participants and again after questions concerning market systems. At the completion of the survey, respondents also were asked what additional or specific issues investors should be concerned about and for any other comments.

More than 150 substantive comments were received; those responding with "no answer" or "nothing to add" types of remarks were excluded.

The various responses were examined and then categorized based on the concerns addressed in each comment (e.g., regulatory system, transparency, corporate governance). The key areas of comment and the topics raised most often are highlighted in **Figure 9**. In instances where an individual raised more than one concern, each separate concern was identified and counted.

Figure 9

Survey respondents commented most about regulation, shareholder rights, and transparency.

Issues Raised Most Frequently

Regulation/Regulatory Systems	**15** comments
Shareholder Rights	**15** comments
Transparency	**14** comments
Company Management	**13** comments
Corporate Governance	**10** comments

Regulation

The 15 comments received on the Japanese regulatory system were diverse, ranging from inconsistency among regulators to ignoring the use of material, nonpublic information in analyst reports.

> *"Nobody apparently finds a problem with material nonpublic information showing up in analyst reports before being in the press or even being announced publicly by companies (red flags should be all over the place)."*
>
> — Survey Respondent

Shareholder Rights

The category of shareholder rights generated as many comments as that of the regulatory system. The majority of respondents cited low standards for shareholder rights as being a primary concern in the Japanese markets. Several also noted the lack of enforcement of these standards and a hostile environment for foreign investors who wish to invest in the country.

> *"Enforcement appears to be very 'targeted.' That is to say that some institutions and companies appear to get away with violations, both small and large, on a routine basis, whereas others are subject to stricter standards."*
>
> — Survey Respondent

Comments of Survey Respondents
(continued)

Transparency

Transparency issues generated 14 comments from respondents. Corporate cross-shareholdings have led to a widespread problem of financial opacity in Japanese companies, and respondents clearly believe that the current level of corporate disclosure and transparency is unacceptable. Transparency was among respondents' top concerns in 2008 as well.

> "*Disclosure from issuing companies [is an issue of concern].*"
>
> — Survey Respondent

Executive Management

Of those who wrote about company management, many spoke of a culture that promotes management's lack of accountability to shareowners. Perceived management weaknesses cited include a general lack of ethics, the promotion of financial opacity, a failure to protect shareowners, and the provision of material, nonpublic information to sell-side analysts.

> "*Agency issues between management and shareholders need to be addressed.*"
>
> — Survey Respondent

Corporate Governance

Comments noting corporate governance were generally provided without elaboration. Some respondents who wrote about corporate governance noted the connection between poor corporate governance and substandard shareowner rights, and others described a need for better oversight of corporate governance.

> *"Weakness in corporate governance is the most serious issue in that it prevents most zombie or mediocre companies from failing."*
>
> — Survey Respondent

> *"Lack of independent boards and poor governance standards [is an issue of concern]."*
>
> — Survey Respondent

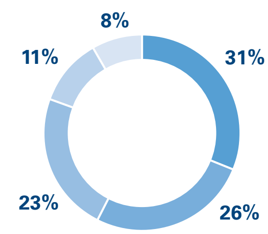
Demographics

The following figures indicate some of the key demographic information about the respondent base (please see complete methodology report at www.cfainstitute.org/centre for further details).

Overview of Out-of-Market Respondents

Market

31%	United States
26%	United Kingdom
23%	Hong Kong
11%	Canada
8%	Switzerland



Respondent Profiles for Japanese Market

In Market (194 respondents)		Out of Market (61 respondents)
	Buy/Sell Side	
55%	Buy Side	43%
12%	Sell Side	20%
4%	Both	5%
30%	Neither	33%
	Client Asset Base	
45%	Institutional Entities	33%
10%	Private Individuals	16%
9%	Equal Institutional and Private Clients	15%
36%	Not Involved in Asset Management	36%
1%	Unknown	0%
	Institutional Asset Client Type	
15%	Bank/Investment Bank	17%
1%	Endowment/Foundation	3%
2%	External Corporation	3%
2%	Government/Municipal Entity	3%
1%	Hedge Fund	14%
15%	Insurance Company	3%
1%	Internal Corporate/Proprietary	0%
15%	Mutual Fund/Investment Company	17%
41%	Pension Fund	34%
2%	Private Equity Fund	0%
4%	Other	3%

These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category

Respondent Profiles for Japanese Market (continued)

Assets Under Management

In Market (194 respondents)		Out of Market (61 respondents)
12%	Less than US$250 Million	17%
8%	US$250 Million to Less than US$1 Billion	10%
12%	US$1 Billion to Less than US$5 Billion	12%
14%	US$5 Billion to Less than US$20 Billion	22%
14%	US$20 Billion to Less than US$50 Billion	7%
23%	US$50 Billion to Less than US$250 Billion	12%
18%	More than US$250 Billion	20%

These results represent only those respondents identified as being in the "Institutional Entities" Client Asset Base category

Years in the Investment Industry

In Market (194 respondents)		Out of Market (61 respondents)
4%	5 Years or Less	10%
34%	6 to 15 Years	60%
61%	16 to 30 Years	26%
2%	31 Years or More	5%

Primary Job Function

In Market (194 respondents)		Out of Market (61 respondents)
1%	Academic	5%
5%	Accountant/Auditor	0%
2%	Broker	2%
6%	Executive (e.g., CEO, CFO, CIO, COO, CMO, etc.)	8%
4%	Consultant	2%
3%	Corporate Financial Analyst	0%
6%	Credit Analyst	5%
1%	Economist	0%
4%	Financial Adviser	7%
6%	Investment Banking Analyst/Banker	0%
3%	Manager (General)	0%
4%	Manager of Managers	0%
1%	Officer (General)	0%
1%	Performance Measurement Specialist (GIPS)	3%
27%	Portfolio Manager	25%
1%	Private Banker	2%
1%	Regulator	0%
6%	Relationship Manager, Sales, Marketing	10%
7%	Research Analyst	15%
5%	Risk Manager	5%
2%	Strategist	3%
1%	Treasurer	2%
2%	Trader	3%
4%	Other	3%

NOTE: Percentages may not total 100 percent because of rounding

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