

15 February 2010

Public Comment on Principles on Point of Sale Disclosure

Securitization Forum of Japan

I. Introduction

- A. The Securitization industry in Japan welcomes this IOSCO initiative and appreciates the opportunity being provided for comment in the consultation process as to Principles on Point of Sale Disclosure (“POS Disclosure”).
- B. We basically agree with the findings and the opinions stated in the IOSCO Consultation Report on Principles on Point of Sale Disclosure (“Report”). Therefore, we would like to highlight some additional supporting comments on the Report from the viewpoint of the characteristics of the market and its participants’ trading practices in Japan’s securitization market, mainly focusing on the adaptability of the desired and practical POS Disclosure regime in the Japanese market.

II. Comments on Chapter II. C (pp. 7-8)

- A. As the Report points out, design techniques of the information that retail investors wish to receive is important. We believe that more tables and graphics will help investors to better understand the information although we recognize that there may be a counter opinion stating that mere tables and graphics do not deliver investment product information with complete legal accuracy and that such demerit should be carefully avoided. We still believe, however, that the tables and graphics would be more valuable where they facilitate the retail investors understanding of the outline or key characteristics of the product in a short time, probably contributing to investor base expansion. This merit would soon outweigh the demerit. Therefore, it is desirable that this disclosing practice be widely accepted in the market with regulators supporting it effectively.
- B. In addition, we should pay attention to the comparability of the information among other types of financial products, just like the issue discussed in chapter IV. In the Report, it would be convenient to have a guideline which sets forth the minimum standard format for tables and graphics; in this way, retail investors could identify and analyze the risk of different products by comparing respective tables and graphics which are mostly the same concerning important parts.

III. Comments on Chapter III (pp. 9-10)

- A. When considering the disclosure format, it would be meaningful to consider the availability of raw data behind the disclosed information. In general, it would be preferable for investors to electronically access the raw data when they analyze the product, in particular, when they gauge creditworthiness through their internal credit model with their version of stress scenarios. So, if conditions permitted, it would be desirable that raw data and other related data such as past performance on which prospectuses were based be distributed via spreadsheets so that investors could easily download the data and quickly use it in their credit analysis as necessary. As such, in the course of setting forth the POS Disclosure regime, some sort of standardized IT system that enables such download and easy periodic update should be discussed broadly in the market, as appropriate.

IV. Comments on Chapter IV (p. 12)

- A. As the Report points out, it is important for effective disclosure to eliminate difficulty when comparing information among different types of financial products. If we do not have any industry standards or market prescriptions for disclosure, each prospectus and other information materials for different products would have a different format for the same content, making it difficult for investors to compare.
- B. Chapter organization is also essential for better comparability. Admittedly, the detailed contents of financial product information vary according to their individual characteristics or the degree of complexity. But we hope it would be desirable that information delivered via prospectus is organized in a standardized way. We believe that standard titling of chapters/sections and items as well as their order in the prospectus would be an integral part of an effective POS Disclosure regime. Only if the regime has such standardization would retail investors wisely compare different types of financial products in a short time.
- C. In this context, however, we should also consider achieving a good balance between effective standardization mentioned above and necessary flexibility which is pointed out in the Report (p. 25) regarding the disclosure requirement. Continuous conversation among market participants such as originators, product producers, investors, and regulators would be required regarding this issue.

V. Comments on Chapter V. (pp. 18-21)

- A. As item B. in chapter V. points out, consistency in the disclosure requirements of both CIS and other types of financial products is a key factor when considering the stable execution of the POS Disclosure regime. In this regard, we should avoid any competitive disadvantage on the part of CIS resulting from applying strict POS Disclosure only to CIS. One possible solution is that we should apply POS Disclosure to all other types of financial products, as appropriate, which are characteristically similar to CIS. But for this application to be acceptable, POS Disclosure should be judiciously sophisticated in terms of design technique, data availability, and delivery system so that investors could benefit from the regime's effectiveness when making any investment decision.
- B. Cost/benefit analysis is essential for introducing successful POS Disclosure. We strongly believe that, just as mentioned in the Report (p. 20), POS Disclosure should be associated with cost reduction effect for financing cost on the CIS producer's part. Under POS Disclosure, CIS producers fairly expect that, thanks to the disclosure, they could raise money at a lower cost than they can now. As such, they expect reasonable "downward pressure on prices" of CIS under the disclosure. Unless a clear and reasonable effect in terms of financing costs is observed, CIS producers would feel that such a regime is rather costly and ineffective in addressing information asymmetries.
- C. As is the case in other jurisdictions, it may be difficult in Japan to exercise cost/benefit analysis of POS Disclosure. The reason is that the degree of benefit would vary depending upon the degree of retail investor sophistication. The POS Disclosure regime would need constant improvement according to investors' proficiency in reading and understanding of the information, as well as handling the related data provided under the regime.

VI. Concluding Remarks

- A. With regard to POS Disclosure, as the Report adequately mentions, rule-making based on (i) the individual features of the CIS, (ii) its competitive environment with other products, and (iii) the usability of information for investors is essential. We should continue to examine cost-effective as well as user-friendly measures for implementing POS Disclosure.
- B. Without such due process of introducing a POS Disclosure regime, we are afraid that CIS producers would steer clear of CIS to avoid any excessive burden for the disclosure requirements, and investors would only make poor investment decisions due to an ineffective and disorganized regime with varying disclosure styles among different products. Consequently, both of them would leave current information asymmetries unchanged and lead to further market stagnation.

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