Gifting a portion of the BOJ's ETF holdings to the public

Katsutoshi Takehana

11 July 2022

lakyara vol.358

Nomura Research Institute, Ltd.

Executive Summary

Katsutoshi Takehana

Group Manager

Financial Market & Digital Business Research Department

The Kishida Government has aroused the interest and expectations of the financial services industry by announcing a plan, slated to be unveiled by year-end, to double households' asset-based income. However, the plan is unlikely to succeed unless improvements to NISAs and iDeCo accounts are coupled with something else besides tax incentives. I propose gifting a portion of the BOJ's ETF holdings to the public.

The government's 2022 Basic Policy on Economic and Fiscal Management and Reform, released on June 7, included three policy initiatives to aggressively promote transformation of the Japanese public from savers to investors. The initiatives are radical expansion of NISAs (Nippon Individual Savings Accounts), reform of iDeCo (individual defined contribution) retirement accounts and establishment of a new program to induce the public to invest more of their savings in risk assets. The most noteworthy is the last one, which the Basic Policy expressly noted is separate from NISAs and iDeCo accounts. This new program has aroused the interest and expectations of the financial services industry.

Details of the new program have yet to be disclosed as of the time of this writing (second week of June). However, it sends an unmistakable message that the government at least recognizes that improving existing programs alone is not enough. According to the Japan Securities Dealers Association's triennial National Survey on Securities Investment, 13% of Japanese own equities and 10% own investment trusts as of 2021. These percentages were nearly unchanged from the 2015 and 2018 surveys. In other words, even during a period when tax-advantaged NISAs and iDeCo accounts made their advent amid a lengthy equity bull market driven by Abenomics, securities ownership did not increase appreciably. Its failure to gain prevalence reveals that tax incentives, while important, must be combined with other measures.

Gifting the BOJ's ETF holdings to the public in micro-installments

From such a perspective, I want to propose a program that would gift a portion of the BOJ's ETF holdings to the public in micro-installments. The BOJ currently owns ¥36tn of ETFs acquired for monetary policy purposes. People without investment experience are often deterred from investing by the efforts required to become an investor, including studying to learn about investing, saving money to invest and opening a securities account at a financial institution. While it is important to lower the bar to becoming an investor, creating a program that would allow as many people as possible to experience owning securities should be equally effective[1]. Gifting the BOJ's ETF holdings to the public would enable people to get a taste of owning securities without risking their own money. The experience should spur more people to start investing their spare funds or at least take an interest in economic and financial matters.

The actual act of distributing the ETFs to the public should be done by the government, not the BOJ, because expanding securities ownership is not the role of a central bank. I suggest the government set up a 100% state-owned entity to serve as custodian of the BOJ's ETF holdings after purchasing them from the BOJ. One way to finance the purchase without increasing the fiscal deficit (issuing new JGBs) would be to borrow the funds from the BOJ[2].

Distribute ETFs to young adults in micro-installments over 10 years

In terms of how and to whom the government should distribute the ETFs it purchases from the BOJ, I propose they be distributed to young adults in small, equal installments over 10 years, beginning in the year the recipient reaches adulthood (i.e., from age 18 through 27). The idea of gifting the ETFs to newly minted adults was first proposed by my colleague Sadakazu Osaki[3]. I added the concept of breaking the gift up into 10 annual installments because receiving a series of distributions would be more likely to have the desired effect than a once-in-a-lifetime distribution (only in the year in which the recipient turns 18).

NOTE

1) See, e.g., Democratizing securities ownership with a universal basic account (https://www.nri.com/en/knowledge/publication/fis/lakyara/lst/2020/11/01).

2) This part of my proposal involving a new entity to be established by the government to purchase the BOJ's ETF holdings with funds borrowed from the BOJ is based on a paper published by Tomoyuki Shimoda in the August 17, 2021, edition of the Japanese magazine Shukan Kinyu Zaisei Jijo.

3) Osaki proposed gifting ¥100,000 of ETFs to everyone reaching adulthood every year in an essay published in 2021 by the Japan Securities Research Institute.

Table: Illustrative example of ETF distributions (assuming annual distributions of ¥5,000 of ETFs per recipient for 10 years from age 18 onward)

(¥100mn)

		Year of distribution											
		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Year of birth	2007	60	60	60	60	60	60	60	60	60	60		
	2008		60	60	60	60	60	60	60	60	60	60	
	2009			60	60	60	60	60	60	60	60	60	60
	2010				60	60	60	60	60	60	60	60	60
	2011					60	60	60	60	60	60	60	60
	2012						60	60	60	60	60	60	60
	2013							60	60	60	60	60	60
	2014								60	60	60	60	60
	2015									60	60	60	60
	2016										60	60	60
	2017											60	60
	2018												60
[1]ETFs distributed		60	120	180	240	300	360	420	480	540	600	600	600
[2]Dividends forgone		1.5	3	4.5	6	7.5	9	10.5	12	13.5	15	15	15

Notes:
(1) To simplify, we assumed a constant 18-year-old population of 1.2mn every year.
(2) Beyond 2036, total annual ETF distributions would remain at ¥60bn.
(3) We assumed a constant ETF dividend yield of 2.5%.
Source: NRI

Additionally, because the objective of gifting the ETFs is not to provide financial support but to whet the recipients' appetite for investing, the ETF distributions should be modest in value. Smaller distributions would entail less fiscal strain. Even ¥50,000 worth of ETFs distributed in 10 annual ¥5,000 installments, for example, should be sufficient to achieve the intended effect.

If we assume that 1.2mn Japanese turn 18 every year and the ETFs will be distributed in annual installments of ¥5,000 per recipient starting from 2025, the total distributions would increase by ¥6bn annually for the first nine years (through 2033) before plateauing at ¥60bn per year from the 10th year onward (row [1] in the table). The dividend income that the government would forgo by gifting the ETFs instead of continuing to own them would be a real fiscal cost. If the ETFs hypothetically pay a 2.5% dividend yield, this cost would max out at ¥1.5bn per year (row [2]). ¥1.5bn is an eminently reasonable price to pay annually for more widespread securities ownership.

Perhaps the easiest way to distribute the ETFs would be to deposit them into securities accounts opened by the recipients themselves. However, this approach would require the recipients to go to the trouble of not only opening a securities account but also notifying the government (ETF custodian) of their account details. These steps could very well pose a prohibitively high hurdle for teenagers dipping their toes into the investment world for the first time.

The alternative is to distribute digital or paper vouchers exchangeable into ETFs at a financial institution of the recipient’s choice. With this approach, the ETFs could be distributed more efficiently than by directly delivering them to the recipient from the start. The vouchers would be a government promise to convey ETFs to the recipient named on the voucher[4]. They could be issued in a manner that maximally leverages digital technology and minimizes the risk of fraud and counterfeiting.

4) This government promise is conceptually similar to what I have previously called a tokenized basic account in a paper published in Japanese in the June 2022 edition of the Capital Markets Research Institute's monthly journal.

When presented with the idea of gifting the BOJ’s ETF holdings to individuals, many would assume that such a plan would be exorbitantly expensive and/or practically impossible to carry out. In actuality, it is quite feasible and would not cost the government much. While NISAs and iDeCo accounts obviously need to be improved as mentioned at the outset, they strongly need to be supplemented with something else.

For more on the BOJ's exit from ETF ownership, see BOJ’s ETF exit conundrum series on the NRI Finsights blog.

about NRI

Founded in 1965, Nomura Research Institute (NRI) is a leading global provider of system solutions and consulting services with annual sales above $5.0 billion. NRI offers clients holistic support of all aspects of operations from back- to front-office, with NRI's research expertise and innovative solutions as well as understanding of operational challenges faced by financial services firms. The clients include broker-dealers, asset managers, banks and insurance providers. NRI has its offices globally including New York, London, Tokyo, Hong Kong and Singapore, and over 13,000 employees.
For more information, visit https://www.nri.com/en

Inquiries to : Financial Market & Digital Business Research Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

https://www.nri.com/en/knowledge/publication/fis/lakyara/