Q1: You booked a loss before income taxes of 21.6 billion yen in the Americas. Setting aside the loss related to American Century Investments (ACI), it was a 3 billion yen loss. Why did performance in the Americas deteriorate even though Wholesale revenues remained resilient?

A1: While the legal expenses related to legacy transactions booked in the fourth quarter were not present this quarter, we did make provisions for some legal expenses in the first quarter. Other technical accounting factors included an impact from CVA/DVA and a rebound from the personnel expense adjustment carried out last quarter. Excluding these factors, performance in the Americas remained roughly unchanged from last quarter.

Q2: When looking at shareholder returns after the second quarter, should we look at first quarter disclosed earnings or should we exclude the unrealized losses?

A2: There is no change to our shareholder return policy. Because last quarter was significantly impacted by irregular legal expenses related to transactions dating back to before the global financial crisis, we took in certain considerations when determining shareholder returns. This time is different. We will consider what to do in relation to market factors and accounting adjustments.

Q3: Your US and European peers have booked provisions of about 200 million dollars each in relation to the use of unapproved devices for business purposes. Have you already made full provisions and we have no need to worry about this issue in the second quarter onwards?

A3: There is an investigation and we have made a certain amount of provisions in the first quarter. That is all we can say as the investigation is ongoing.

Q4: How are international personnel expenses and inflation on a local currency basis?

A4: As I mentioned last quarter, we are seeing some rise in personnel expenses, but excluding the impact from exchange rates, Wholesale personnel expenses haven’t been affected that much.

Q5: Why did Fixed Income have a good quarter? What is the market environment and outlook for Fixed Income and Equities from July onwards?

A5: Rising JGB yields and higher volatility spurred a rebound in our Japan Fixed Income business. The Credit businesses in AEJ and Japan also made strong contributions to performance. For instance, in China the corporate bond market has normalized somewhat, prompting a rebound in client activity. It’s a very difficult market, but if volatility remains elevated, we expect we can monetize opportunities.

In Equities, while we feel the market has bottomed out recently, overall trading volumes have declined due to geopolitical risks and concerns over default risks in emerging markets. That said, we see revenue opportunities such as a rebound in Japan Equities.
Q6: What other factors besides the exchange rate led to the rise in personnel expenses?

A6: The graduate hires who joined in Japan in April are a factor behind the increase. Also, due to accounting reasons, deferred compensation tends to increase slightly in the first quarter.

Q7: Why was the Wholesale cost-income ratio higher than the 80 percent target at 87 percent? How will this trend going forward?

A7: Both revenues and expenses increased about the same due to the weaker yen, resulting in what looks like a higher cost-income ratio for the level of revenues. We didn’t aggressively hire in Investment Banking due partly to inflation in the labor market, but the hiring environment has improved recently.

We are leveraging digital technology to drive efficiencies and take other measures to control costs. At the same time, we will invest in our focus areas to expand our top line. We are also working to turn fixed costs into variable costs.

Q8: By shifting from fixed to variable costs, do you mean a higher focus on pay for performance or are you talking about IT systems and real estate rental fees?

A8: We are currently reviewing if it is possible to change some IT system and other fixed costs to variable. We have already implemented pay for performance and will heighten our focus on this as well.

Q9: Level fee assets topped 200 billion yen at the end of June, but in terms of reaching your target of 10 trillion yen over the next few years for assets including discretionary investments, this pace seems slightly slow.

A9: Our level fee target is a shared goal with our clients for investment over the medium- to long-term, taking into account their portfolio and ensuring we follow up with our clients. By enhancing client satisfaction, we aim to bring in new funds. We don’t just want existing client assets to simply move to level fee assets.

Clients opting for level fee assets have provided very positive feedback such as saying they can more easily make trading decisions because trades are not directly linked to commissions.

Q10: Was the unrealized loss on ACI due to a slump in the company’s business or because of a drop in the share price of its competitors and rising interest rates?

A10: We determine fair value each quarter based on the firm’s performance, economic and market indicators. In the April to June quarter, we saw a correction in global equity markets, and rising interest rates, particularly in the US. This impact led to the unrealized loss, which is roughly in line with the trend in share prices of international listed asset managers. Senior management understands the performance volatility is an important issue and we are discussing measures to address this as required.

Q11: By addressing performance volatility do you mean hedging, etc.?

A11: Yes.
Q12: Even if you add back the unrealized losses, first quarter earnings look muted. Do you have a path to bring income levels back so they can sufficiently cover the cost of capital?

A12: We still have more work to do to diversify and stabilize our revenue base. To boost ROE, we must improve the profitability of Retail and work to boost revenues in Investment Banking. To grow the top line and review the cost structure in Retail, we have kicked off a project co-sponsored by the Head of Retail and myself as CFO. We will lay out detailed business strategies for each segment, visualize data, and move with speed to improve productivity.

Boosting Investment Banking revenues is another key to improving ROE. During the first quarter, ECM deals were effectively frozen. While it is difficult to predict the timing, our deal pipeline is growing and once the market normalizes we expect revenues to improve.

Q13: If the market recovers, can Retail income before income taxes return to the 27.5 billion yen to nearly 30 billion yen level or will you need to revise your cost base to achieve your KGI?

A13: While revising our cost base, we also aim to grow our flow revenues. To do so, we have reiterated within Retail the importance of product marketing matched to the needs of each client and appointed executive officers to oversee our three segments of corporates and owners, high-net-worth individuals, and mass affluent clients. The number of proposals we are making to clients has increased since April and if the market recovers to a degree, we expect this to lead to a rise in flow revenues. More and more investors are thinking about managing their portfolios given the recent weakening of the yen and rising interest rates in the US.

To increase touchpoints with clients, we will further leverage digital tools and forge alliances with regional financial institutions.

Q14: Your CET1 ratio came in at 16.7 percent. What were the main factors behind the change from the end of March? At the current level, will it be over 11 percent following the finalization of Basel III?

A14: The main driver pushing down our CET1 ratio was an increase of about 1 trillion yen in risk assets. The weaker yen was the biggest factor, but there was also market factors such as higher volatility and technical factors such as a change to the reference period for stressed VaR.

There has been no significant change to the guidance we have been giving about the impact of the finalization of Basel III being around 3 percent to the mid 4 percent range. We will continue to mitigate the impact using measure such as applying internal models.

Q15: In segment Other for items that are affected by changes in fair value, are you considering hedging or lowering your position in order to stabilize earnings?

A15: Our main approach is to lower our position by selling securities holdings. Also, economic hedging gain/loss arises from an accounting mismatch where hedged bonds are not marked to market but the derivatives used as hedges are marked to market. Bonds issued after 2018 are accounted for at fair value so if bonds issued before that are redeemed the fluctuation of gain/loss diminishes.
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