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Bank of Japan

**Promoting the Evolution and Stability of  
Japan's Financial System**

*Remarks at the AIMA Japan Annual Forum 2026*

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(English translation based on the Japanese original)

## **Introduction**

Good morning, everyone. It is a great honor to have the opportunity today to address such distinguished participants from both Japan and abroad, who are continuously dedicated to the "advancement of alternative investment management" -- a field of ever-increasing global significance.

At present, both the global and domestic financial landscapes are undergoing profound transformations. Among these, I would like to highlight the importance of assessing non-bank financial intermediaries (NBFIs), which are playing an increasingly critical role in the financial system, from a global perspective.

At the Bank of Japan, the *Financial System Report* is published twice a year, aiming to assess the stability of Japan's financial system and provide all related parties with insights on the future tasks and challenges to ensure the system's stability. The latest issue was just recently published, and the coverage of NBFIs has been increasing with each issue. Furthermore, the Bank actively disseminates information on NBFIs through various other channels, such as the *Bank of Japan Review Series* and *Bank of Japan Working Papers Series*.

Today, I would like to discuss current developments in NBFIs and investment funds, the challenges associated with their activities, and their expected roles in the future, while incorporating the Bank of Japan's perspective. I also hope to share knowledge with all of you and identify keys to fostering a sustainable and stable development of the financial system through constructive dialogue.

### **I. Global Expansion of NBFIs and Investment Funds**

Let me begin by discussing developments in NBFIs and investment funds from a global perspective. Generally, the term NBFIs is used to describe financial institutions other than banks, and it encompasses a wide range of business types, including investment funds, insurance companies, pension funds, broker-dealers, and finance companies.

NBFIs' global asset holdings have been steadily increasing in recent years. Currently, NBFIs account for approximately 50 percent of total financial assets, surpassing the roughly 40

percent held by the banking sector. This illustrates that entities other than banks that perform financial intermediation are becoming increasingly prominent, with each offering specialized financial products and services tailored to a wide range of social needs.

Among these entities, investment funds, such as hedge funds, private equity funds, and private credit funds -- in which many members of AIMA (Alternative Investment Management Association) are involved -- are playing an increasingly significant role.

Specifically, hedge funds have been expanding their influence in financial markets through increasing trading volumes and assets under management. Hedge funds engage in leveraged, flexible, and high-frequency trading to achieve high investment performance, using the capital raised from investors and leveraging it through borrowing, repo transactions, and derivatives. At the same time, they have also contributed to smooth financing by providing liquidity and improved market efficiency by engaging in arbitrage trading, which corrects price distortions such as those between spot and futures prices.

Moreover, the activities of private equity funds and private credit funds are noteworthy. These investment funds have experienced rapid growth, primarily by meeting companies' diverse funding needs. In the United States, in particular, they have become an integral part of alternative financing channels following the tightening of banking regulations in the wake of the 2008 financial crisis. Leveraging their flexibility and ability to adapt to different market needs, these funds have expanded in scale while providing long-term financing.

In addition, recent global investment trends show that investors are increasingly willing to take risks in "alternative assets" such as real estate, unlisted stocks, and commodities. These trends have drawn attention as a move toward seeking alternatives to traditional assets such as stocks and bonds, further driving the growth of investment funds.

## **II. Characteristics of NBFIs and Investment Funds in Japan**

Now, I would like to explain the current situation of NBFIs and investment funds in Japan.

Compared with global data, NBFIs account for about 30 percent of the total financial assets

in Japan, which is lower than the global share of 50 percent. However, a closer look at the breakdown of NBFIs shows that, while the share of traditional key players such as insurance companies and pension funds has been shrinking, hedge funds and private equity funds are emerging and steadily gaining presence.

What is particularly notable is the growing presence of foreign hedge funds in Japanese stock and bond markets. For example, both sales and purchases of spot Japanese government bonds (JGBs) by foreign investors have been surging. As background, arbitrage trading and hedging transactions for risk management purposes by global hedge funds are playing a significant role in driving this trend.

In addition, private equity funds in Japan also play a prominent role. In recent years, as Japanese companies proactively engage in corporate activities, these funds have been increasingly facilitating business restructuring and mergers and acquisitions (M&A) by providing capital and supporting corporate management. Such activities are sowing the seeds of new growth in Japan's market and contributing to long-term economic development.

While it is true that Japan's NBFIs sector remains small compared with that in the global market, there is potential for significant growth. It is essential to learn from advanced initiatives, both at home and abroad, and enhance financial services that respond to Japan's economic structure and social needs.

### **III. The Bank of Japan's Focus from the Viewpoint of Financial System Stability**

The increasing importance of NBFIs and investment funds implies their growing impact on the financial system as a whole. Central banks, including the Bank of Japan, are particularly focusing on the following three perspectives with a view to enhancing the resilience of the financial system.

First, a deep understanding of the diverse business types and risk characteristics of NBFIs is essential. NBFIs comprise a wide range of business types, each with a distinct balance sheet structure and risk profile. For instance, while private credit funds adopt measures to restrict redemption, some retail products in the United States allow redemptions under certain conditions. I believe that grasping these trends accurately and gaining a thorough

understanding of the unique characteristics of each type of NBFIs will serve as the foundation for building a stable financial system.

Second, assessing the systemic impact on the financial system is crucial. Investment funds play a role in promoting economic growth by supplying risk capital and contributing to financial and capital markets. On the other hand, they can also pose potential risks to the entire financial system. For example, a sudden shift in capital movements by global hedge funds could exacerbate price volatility in bond and stock markets. Furthermore, as Japanese financial institutions increase their investment and lending to foreign investment funds, the possibility of shocks from abroad instantaneously spreading to domestic markets has emerged as a risk management challenge.

Last but not least, let me emphasize the need for international cooperation and collaboration. As NBFIs expand their global activities, cooperation among central banks and supervisory authorities across jurisdictions is becoming increasingly important. It is imperative to actively promote information sharing and dialogue within the international community in order to ensure sufficient data is available to respond to the rapidly changing financial environment, including the growth of global investment funds, and to assess as accurately as possible the risks and impact of the increasing presence of NBFIs. The Bank of Japan will continue to actively contribute to international discussions and support the development of the overall financial system, including the NBFIs sector.

### **Closing Remarks**

In closing, I would like to highlight once again that it is important for the Bank of Japan to engage in deeper dialogue with stakeholders of alternative investment management in Japan and abroad. As the financial environment undergoes significant transformation, the Bank will continue to work collaboratively for the evolution and stability of the financial system.

I hope that today's discussion will provide an opportunity to share knowledge and learn from each other, as well as discover new ideas for the future of the financial system. With the expectation that today's session will yield valuable insights and suggestions, I would like to extend my sincere gratitude for your kind attention. Thank you.