Major factors affecting the development of the securities industry in Japan have revolutionised the role and functions of the country's securities analysts.

Recent economic theories maintain that financial intermediaries play a vital role in providing professional financial services, particularly the compilation and dissemination of information about various types of financial assets, in addition to the more traditional role of credit substitution and transformation. In a similar way, a security analyst plays a very important role as an intermediary of information between issuers of securities and investors in the securities market.

Given the nature of marketable securities, it is rather easy for an information gap to arise between the seller (i.e., issuer) and the buyer (investor) concerning the quality of the product — the so-called asymmetry of information between the parties concerned. Hence, under the modern securities exchange system, full and timely disclosure is required of an issuer of securities who wishes to raise funds from the market, so that investors can make rational investment decisions. However, in practice, as the activities of corporations have become more complex, so has the corporate information which is disclosed, and an investor finds it more difficult to fully appreciate it. Even if an investor has sophisticated analytical capabilities, he may find it too time-consuming and costly to collect all information available and analyse it by himself. Herein lies the need and rationale for a specialist who monitors information provided by an issuer on a continuous basis, who also processes it and gives some evaluation, thereby making it easier for investors to understand. That specialist is the security analyst.

The information a security analyst has to collect, analyse and evaluate is quite diverse, ranging from data about individual companies and their securities, the industry that a particular company is associated with, to macro-economic information such as economic activity in general or monetary trends. Furthermore, as investors and investment instruments become more diversified, together with the increasing scale of investments, portfolio analysis becomes more vital to identify that optimal combination of investment instruments that meets the specific investment objectives and risk-tolerance of a particular investor. This has been promoting the specialisation of security analysts into research analysis, portfolio management, and investment advice.

At any rate, as security analysts (in the broad sense of the term) go through the investment decision-making process which involves analysis, evaluation and application, they facilitate the channelling of investment funds into the most favourable companies or industries, thereby contributing to the efficient distribution of capital through the

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The growth of electronics and financial deregulation has given rise to financial innovation, particularly in the securities market.

... Japanese analysts will find themselves more and more in competition with security analysts in other countries.
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analysts has also steadily risen. Today, security analysis is attracting talented young people because it is a challenging profession with great prospects. I should mention that in the past, a good many people believed there was no use or, at best, only very limited use for analysts. I must admit that some people still think like this. Their reasoning is more practical in nature in that they maintain that in the Japanese market, price formation, particularly of stocks, is determined not by fundamental investment value but by a uniquely Japanese supply-and-demand relationship and that if one follows the advice of rigorous analysis, one tends to underperform. Their insistence that there is no need for analysts is based upon a notion which is completely opposite to the efficient market hypothesis. I do not deny that the market and price formation in Japan have some unique characteristics. However, if one takes a somewhat longer view, and given the overall trend of market developments, there is no doubt that the growing number of market participants is creating a broader supply-and-demand base, which will ultimately lead to prices being largely determined by intrinsic investment value. Money flows are becoming more globalised and cross national borders freely. When the gathering and analysis of information is expanded to a global scale, and when there is a very active flow of information, the flow of money will follow suit, and market price formation will be averaged out globally.

When this happens, the Japanese stock price levels will be determined by fundamental factors such as the growth of Japan's economy, or earnings forecasts of a particular industry or a company. Hence, through discharging their role as information intermediaries, which I described earlier, security analysts will contribute to the efficient use of capital on a global scale. Perhaps my view is too optimistic, but I firmly believe that analysts will continue to play an important role in the context of the dynamic development of financial markets.

Of course, analysts themselves must meet various challenges in order to satisfy the growing needs and expectations from the marketplace and elevate the status of the profession. Because the activities of corporations are becoming more diversified and internationalised, analysts must be equipped with the knowledge and techniques to collect, screen and properly analyse much more information than ever before. For example, to evaluate the growth potential of a company, an analyst needs not only accounting information regarding the financial strength of the company, but also an understanding of its products and technology involved.

And, if an analyst is to evaluate a multinational company or a foreign company, he must be versed in the accounting rules and practices of different countries. Also, in the area of portfolio management for institutional investors who invest a large amount of funds, the use of new instruments to control risks as well as add value, such as options and futures contracts, and also the application of quantitative analytical tools incorporating the most recent investment theories, will become increasingly important.

There is no doubt that the scope and level of expertise and techniques required of an analyst today is far greater and more sophisticated than 10 years ago. At the same time, because of the rapid progress of globalisation, the need for commonality in our body of professional knowledge and techniques is becoming dramatically evident.

To help analysts keep abreast of the ever-changing theories and practices, the Japan association gives top priority to upgrading and updating various educational programs. In response to the globalisation of financial markets, analyst societies in various countries have embarked on a common approach for the international standardisation and harmonisation of educational programs. This is a very welcome move toward improving the abilities of analysts on a global scale.

A further challenge is the raising of professional ethics and the establishment of professional standards. It goes without saying that because the very nature of securities analysis entails predictions of future earnings and risks, it is therefore uncertain by definition. Additionally, it involves products with violent price volatility. Because of this, to qualify as a true professional, it is vital for an analyst to be able to maintain a high degree of mutual trust with the investor, who is his client.

To achieve this, an analyst must exercise stronger self-discipline to achieve a high level of professional conduct worthy of the profession. The Security Analysts Association of Japan recently established standards of professional conduct, requiring compliance on the part of its members.

Knowledge and techniques as well as integrity are the two important pillars of our profession. And, as long as our efforts continue to strengthen them, I believe that the future for analysts will be extremely bright.