Promoting Japan as a Leading Asset Management Center

May 2024

Hideki TAKADA
Director for Strategy Development
Financial Services Agency
Government of Japan
hideki.takada@fsa.go.jp

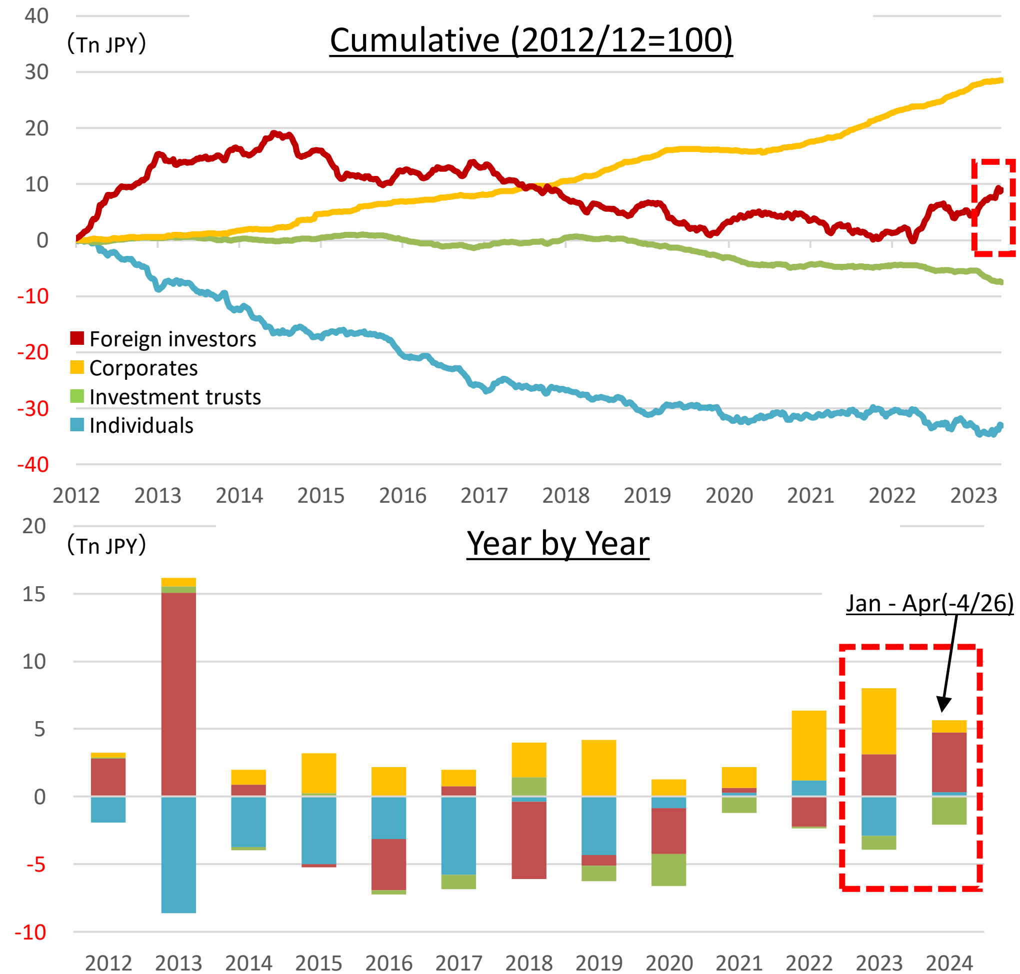
Japan as an Attractive Investment Destination

- The Nikkei 225 reached an all-time high surpassing the levels seen in 1989; primarily led by strong investment flow from overseas investors.
- The Kishida administration is promoting initiatives for Japan to become a leading asset management center which would make the Japanese market even more attractive.

Stock Price (Nikkei 225)

(source) Bloomberg

Invest trend in Japanese Stocks by Investor type



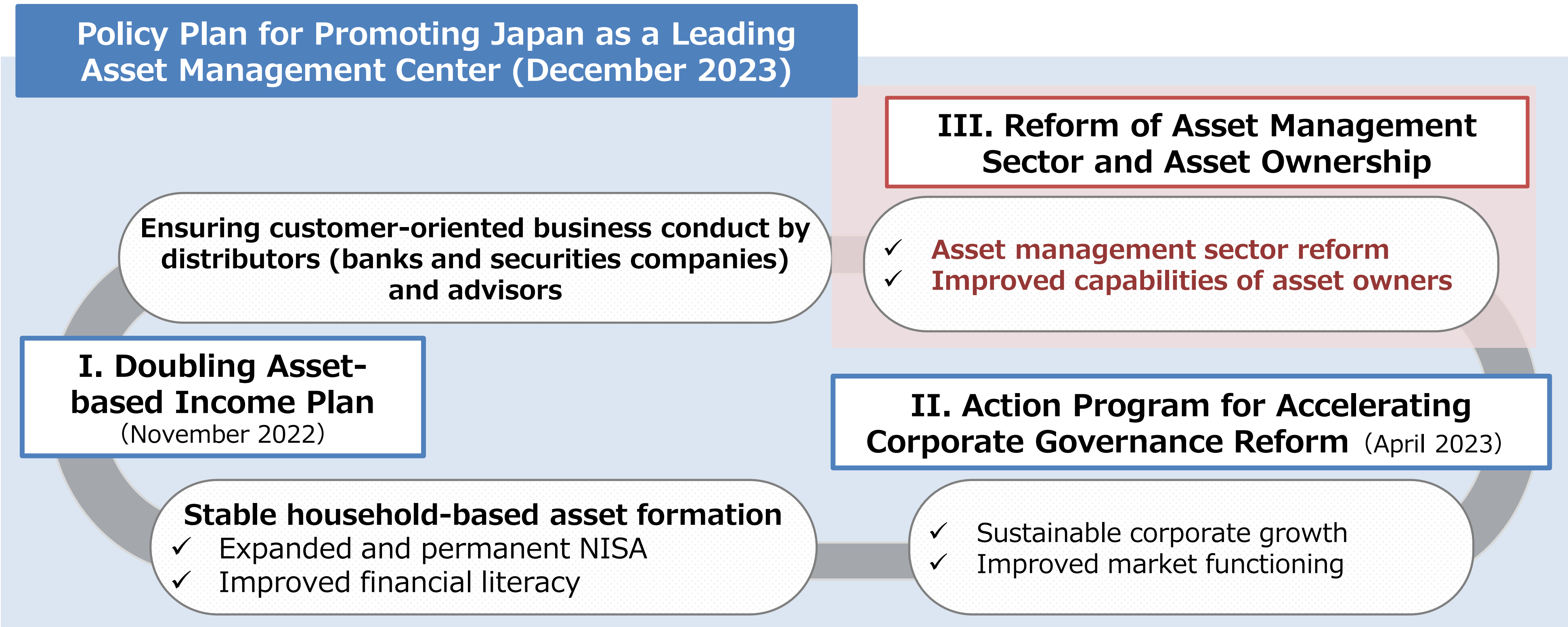
(source) Japan Exchange Group

Overview of "Promoting Japan as a Leading Asset Management Center"

- Under PM Kishida's initiative toward a "new form of capitalism", the government has been taking various measures to achieve a **"virtuous cycle of growth and distribution"** through an increased flow of Japan's household savings flow into productive investment.
- The government has been reaching out to **various entities in the investment chain** to encourage this move, including through:

  I. Doubling Asset-based Income Plan; and

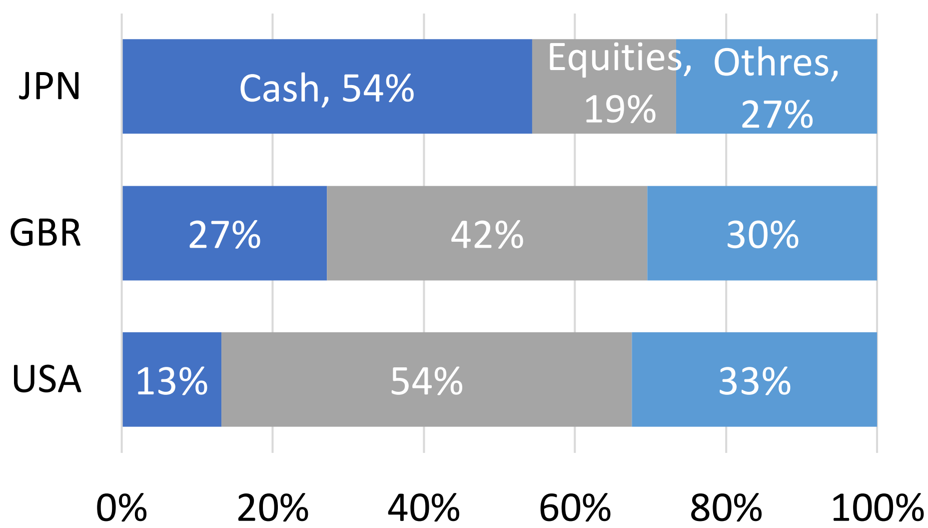
  II. Corporate governance reforms.
- **III. Reform of Asset Management Sector and Asset Ownership** is the remaining piece for the growth of Japan's economy and Japanese people's asset income.



Untapped opportunities
– Doubling Asset-based Income Plan (November 2022)

- Japanese households have more than 2,000tn JPY (more than 13tn USD) of financial assets - more than half in cash and deposits ⇒ **Huge potential sources of investment**
- To mobilize these assets into investment, the Govt set out "**Doubling Asset-based Income Plan**" in November 2022

Household Financial Assets



Source: FRB, BOE, BOJ

Doubling Asset-based Income Plan

- ➢ Fundamental expansion of NISA (a tax-exempt investment scheme for individuals)
- ➢ Strengthen financial education as a national strategy
- ➢ Realize a global financial center open to the world

Action Program for Accelerating Corporate Governance Reform: ~From Forms to Substance~ (April 2023)

From forms to substance: promote self-motivated changes in the mindsets of companies and investors

Issues	Actions
Raise the awareness of profit-making and growth	✓ Encourage the management with an awareness of profit-making and growth based on the cost of capital（TSE requests companies to review the management; esp. those with a PBR less than 1.0)
Raise the awareness of sustainability issues	✓ Promote sustainability disclosures including human capital and diversity ✓ Set a target of 30%+ female executives by 2030
Enhance the asset management and stewardship activities	✓ Encourage asset managers and asset owners to enhance stewardship activities (including by allocating sufficient resources, providing incentives for stewardship activities and establishing governance structures of asset owners)
Improve the effectiveness of independent directors	✓ Improve the effectiveness of independent directors through disclosures of their activities and educations for them
Review legal issues and market environment issues	✓ Review large shareholding reporting rules etc. ✓ Consider disclosure and governance issues regarding quasi-controlled listed companies
Enhance disclosures and dialogues with global investors	✓ Promote disclosures regarding dialogues with investors ✓ Expand English disclosures

Policy Plan for Promoting Japan as a Leading Asset Management Center (1/3)

I. Reforming the Asset Management Sector

Enhancing asset managers' capabilities and governance

- Call for major financial groups to develop their **plans to describe their asset management business strategy, enhance their investment management capabilities and improve governance**

Promoting new entry by domestic and foreign managers

- Rectify **Japan's unique business practices** and resolve **barriers to entry**
  - Encourage single-check calculation of net asset values of investment trusts
- Establish **special zones**
  - **Publish a policy package for the special zones by summer 2024**
- Introduce a new **program to assist new entrants** (Emerging Manager Program)
  - Request **financial institutions to use emerging asset managers and not to exclude them simply because their business history is short. Figure out and publish good examples of initiatives** in financial groups.
  - In "Asset Owner Principles", include a provision on the treatment of emerging asset managers in the possess of fund manager selection.
  - Provide **a list of emerging asset managers (Entry List)**
  - **Deregulate** to allow asset managers to **outsource middle- and back- office operations**

Policy Plan for Promoting Japan as a Leading Asset Management Center (2/3)

II. Reforming Asset Ownership

- **Develop "Asset Owner Principles"** by summer 2024
  - Include common principles of investment policy, governance, and risk management.
- **Reform Occupational pension funds**
  - For defined benefit pensions (DBs), promote **reviews of the selection of the investment companies entrusted** for the best interest of beneficiaries.
  - Encourage the Pension Fund Association to **improve its joint management scheme**, including **enriching service lineup** for more small-scale DBs.
  - For defined contribution pensions (DCs), **promote disclosure of information such as on investment policy and investment portfolio so that pension beneficiaries can select appropriate products**.
  - Regarding DBs and DCs, **promote disclosure of investment information in a comparable manner**.

Policy Plan for Promoting Japan as a Leading Asset Management Center (3/3)

III. Promoting financing for growth and diversifying investment opportunities

- **Promote investment in start-up companies with growth potentials**
  - Develop principles for venture capital funds
  - Deregulate for investment crowdfunding
  - Promote issuance and circulation of unlisted securities

- **Diversify investment opportunities, including alternative investments and sustainable investments**
  - Allow partial inclusion of non-listed equities in investment trusts
  - Hold Dialogue on Enhancing Sustainability Investment Products by the end of 2023

IV. Effective Implementation of Stewardship Activities

- Work with Tokyo Stock Exchange (TSE) to follow up on **the initiatives of planning, disclosure, and implementation by listed companies** corresponding to TSE's request "Action to Implement Management that is Conscious of Cost of Capital and Stock Price".

- Promote effective engagement efforts between institutional investors and companies, **including through a review of the large shareholding reporting rule**.

“Japan Weeks” and “Asset Management Forum”

- The 1st round of “Japan Weeks” convened in fall 2023 to promote Japan as a leading asset management and financial center of the world.
- Massively inviting global investors and asset managers, the government of Japan held intensive discussions with them and announced various new measures for enhancing the asset management sector.
- Will hold the **2nd round of “Japan Weeks” in fall 2024**, inviting global investors and financial institutions. **Its core week is from September 30 to October 4**, and a variety of events will be held including the weeks before and after that.
- **A launch event of the “Asset Management Forum” will be held on October 3**.

JAPAN WEEKS

2024

Core week: Sep 30 – Oct 4

Launch Event of the AM Forum: Oct 3 @TOKYO

We will establish **“Asset Management Forum”** to continue dialogue with related parties in order to advance the abovementioned measures in line with the needs of related businesses and investors in Japan and abroad.

Round table with the Prime Minister and global investors (Oct 6, 2023)

https://www.fsa.go.jp/en/financialcenter/japanweeks.html

Takeaways of the 1st round of Japan Weeks < 24 Sep - 6 Oct, 2023 >

- 10,000+ investors and related parties from around the world participated.
- The Japanese government announced various new measures to promote Japan as a leading asset management center and received feedback from global investors and asset management companies.

Scan to visit JWs 2023 official website

Date	Events	Organizers
25 September	National Securities Conference	Japan Securities Dealers Association, Japanese Stock Exchanges Conference, Japan Investment Trusts Association
2 October	The NIKKEI sustainable forum	Nikkei
3-5 October	PRI in Person	PRI Association
3 October	"Financial Nippon" Top Symposium	Nikkei
4 October	Financial Reform Forum	Nikkei
4 October	October 4 Securities Investment Day Talk Event	JSDA, Japan Exchange Group, JITA
4 October	Dinner & Drinks Networking Event	Bloomberg
5 October	Welcome Dinner	BlackRock
6 October	Japan Head of State/ Long Term Investors Summit	BlackRock
6 October	Global Investor Roundtable	Government of Japan

Sustainable finance developments in Japan

1. Promoting disclosure

- Sustainability disclosure in corporate financial reporting (from Mar 2023)
- Mandate Japanese version of "S1" and "S2" (from 2027 or 2028)

2. Enhancing transparency of ESG markets

- The Code of Conduct for ESG evaluation and data providers (Dec 2022) endorsed by 21 providers so far
- Supervisory guidelines for ESG investment trusts (Mar 2023)

3. Financing transitions

- Transition finance guidelines and roadmaps for hard-to-abate sectors
- Issuance of the world's first sovereign transition bond (Feb 2024)

4. Promoting impact investment

- Basic guidelines for impact investment (Mar 2024)
- Establishment of the "Impact Consortium" of stakeholders (Nov 2023)

FSA website on sustainable finance
https://www.fsa.go.jp/en/policy/sustainable-finance/sustainable-finance.html

PRI in Person 2023 in Tokyo (Oct 2023)

(Excerpts from the keynote speech by the Prime Minister Kishida)

Addressing social challenges through investment would…provide long-term financial opportunities to both investors and the beneficiaries. This approach of responsible investment… would precisely embody elements of what is generally called "fiduciary duty."

I hereby announce that as the government we would proceed with necessary background work, and that seven representative public pension funds, worth of 90 trillion yen, or $600 billion in AUM, will start preparations for newly becoming signatories to the Principle for Responsible Investments. Our objective is that public pension funds reinforces their work on sustainable finance and spread the movement to the whole financial market.