

**Advisory Panel for Global Financial City Tokyo (Second Meeting)**  
**(Transcript)**

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Venue: Tokyo Metropolitan Government Bldg. No. 1, Tokyo

Secretariat: It is now time. We would like to begin the second meeting of the Advisory Panel for Global Financial City Tokyo. There are six documents distributed to you, from document #1 to document # 6. As for the attendees, please refer to the List of the Attendees, document 1 and Seating Chart, document 2. At the outset of the meeting, I would like to ask Governor Koike to say a few words.

Yuriko Koike, Governor of Tokyo: Good afternoon, ladies and gentlemen. Despite your very busy schedule, thank you once again for attending this Advisory Panel meeting. This is the second meeting of the Advisory Panel for Global Financial City Tokyo. From London we have attendance of Sir Roger. Participation from London again, thank you so much, thank you. After the November kick-off meeting, this is the second Advisory Panel meeting and towards revitalization of the financial sector, we would like to start substantial discussion.

Japan is not a member of NATO – no action talk only – NATO. We should stop NATO. That is the principle of this meeting.

When we look around the world, under the new Trump administration, well, there is a new Trump administration in the United States, and there are also developments surrounding Brexit, so we are seeing cataclysmic changes. As we face these changes, there is also dramatic change in the international environment and, for example, in London, in Paris, in Luxembourg and in Brussels, there are invitations from many places attracting financial institutions. For Sir Roger, Tokyo is attractive place to live in. How about leaving London, yeah, this is an official invitation to Tokyo, by the way.

Anyway, in any event we are seeing tremendous change in development. Highly skilled personnel are looking for places to go. This Advisory Panel for Global Financial City Tokyo should serve as a magnet attracting such high caliber talent.

Until the Olympic and Paralympic games in 2020, we have only three years left. 2020 is a milestone year, and I have a plan of action towards 2020. There are numerical targets in this plan of action. As for the GDP of Tokyo, right now it is ¥95 trillion, and the target is to increase this to ¥120 trillion GDP by 2020. As for inbound travelers, to increase that number from the current 14.9 million, or thereabout, to 25 million, almost double. As for satisfaction in terms of quality of life of Tokyo residents, currently it is only 40% and we would like to increase that to 70%. It seems that Tokyo residents are somewhat cynical and are not very satisfied.

There are various city rankings, and Mori Building Foundation conducted the latest city ranking, and Tokyo is up to the third ranking from perennial fourth ranking. Paris and Tokyo replaced each other in terms of ranking. I believe this is because of the sense of safety and security. And we would like to make Tokyo the number one city in global city ranking. So GDP, inbound traveler number, quality of life satisfaction, and global city ranking number one, these are the four objectives described in the action plan towards 2020.

In order to achieve these four objectives, we have developed FIRST strategy. FIRST is an abbreviation and the first letter F stands for finance. Finance is at the top of this strategy and I stands for innovation, R stands for rise, S is success, and T is technology. Abbreviated FIRST, FIRST is the name of the strategy we developed. In any event, finance is a very important area and we would like to grow the finance area so that we can achieve the objectives for 2020.

As for fiduciary duty, what is in the best interest for depositors and investors in qualitative term as well as quantitative term? We will discuss this with the perspective of what is the appropriate way for fiduciary duty, so that quality-wise we can achieve enhancement. So in terms of both quantity and quality, we would like to achieve improvement and we would also like to increase speed.

In these three directions, we will make Tokyo a Global Financial City. We ask for your cooperation and good advice. I look forward to today's discussion. Thank you very much.

Secretariat: Thank you very much, Governor Koike. I would now like to ask Mr. Saito to serve as the Chair for the Advisory Panel Meeting.

Atsushi Saito, Chair: We will follow the agenda and begin discussion. In November and December, we had a study meeting on promoting and attracting foreign financial institutions. And the "Immediate Measures for Attracting Foreign Financial Companies" was put together in December, which was published by Tokyo. We would like to share with you the immediate measures so I would like to ask the Secretariat to present it.

Secretariat: Please refer to document 3. There is A3 overview large paper and there is a more detailed PowerPoint presentation which is about 15 pages long. Today I would like to use the larger size A3 size paper to present. I would like to give the overview of the immediate measures.

We held study meetings twice to discuss the immediate measures. We had Mr. Osaki from Nomura as the chairman, and experts and practitioners from FSA, Japan Securities Dealers Association and FinTech companies took part in the study group. We discussed and compiled the immediate measures so that we can start it from Fiscal Year 2017. On December 22, the immediate measures was publicized on TMG website and at the press conference by the governor, and we will promote it to various parties.

As for the overview, please refer to this page. Foreign financial institutions including asset management companies and FinTech companies will be given support at each stage of setting up a business in Japan from before the entry to actual launch of operations. From left to right, according to the time axis, three core steps are shown from the feasibility study of doing business in Japan to launch of business.

First core step is on the left box; attracting foreign institutions. As for item 1, Tokyo Metropolitan Government will attract foreign financial institutions that are interested in relocating in Tokyo and will assist market research, development of business plan and acquiring licensing, etc. Such consultation service will be offered for free and it is considered as a new service for fiscal 2017.

As for item 2, introduce accelerator program, especially targeted at FinTech companies overseas with advanced state-of-art technology. We will support a matchup with those companies and domestic financial institutions.

As for item 3, advance financial promotion activities through the collaboration of public and private sectors. The need of this was pointed out during the study group meetings; we would like to have this topic discussed in the Advisory Panel meeting.

And item 4, review the inheritance tax. Under the revision of tax system in fiscal 2017, changes are made to the inheritance tax levied on overseas assets when foreign expats pass away in Japan or if relatives of the foreign expats die overseas. On certain conditions, inheritance tax was levied on overseas assets, but, after the changes will be made, it will only be levied on assets in Japan. These changes are not exhaustive measures, but these are positive progress to make environment to attract highly-skilled financial talent from abroad.

Next core step is support of development of business plan and license registration preparation for the establishment of an office in Tokyo. As for item 1, establish one-stop support service for financial businesses to enhance consultation support for them. The TMG is going to open consultation service that can provide information and support related to procedures and regulations for foreign financial companies planning to open business in Tokyo. FSA also plans to establish a consultation desk for asset managers and asset owners, so we would like to have close coordination with FSA.

Item 2 is Tokyo One-Stop Business Establishment Center. Tokyo One-Stop Business Establishment Center is already in existence but we would like to begin accepting filing in English, and we would first like to start with filing for Tokyo tax. There is the head office in JETRO Headquarters and we would also like to establish a satellite center in Marunouchi.

Next item is compilation of an English manual. For overseas financial institutions, in order to obtain financial license, procedures are quite complex and are not easy to understand. That is often pointed out, so as much as possible we will make it with easy to understand explanations, including past examples and case studies, and this will be supervised by FSA. We would like to prepare an excellent English manual.

The third core step is use of National Strategic Special Zone to develop a better living environment. From fiscal 2016, many schemes are already available, but relaxing the acceptance of foreign housekeeping staff, making special treatment for residence status, and making revisions in medical care and education, etc. With these we would like to improve the living environment for foreign residents.

And matters for future study described in lower left of the A3 paper, amongst items discussed in the study meetings, there are medium to long-term issues such as revision of the tax system, revision of various regulations, creation of English-friendly environment, development of asset management business, enhancement of education, and nurturing talent. So we would like to have in-depth discussion and review of these matters. Thank you very much.

Atsushi Saito: Thank you. If we start to take questions after presentations, we will run out of time, so at the very end we will spare some time so that we can have some discussion session. If there is any pressing question that you would like to ask, I think we can entertain one question. Anyone? There are so many agenda items. We have a lot to cover and we do not have much time. If everyone agrees, why don't we move on?

After the first advisory panel meeting, I have made a request to the secretariat. The secretariat and Mr. Aritomo conducted an interview to the members, and we would like to share the result. So, Mr. Aritomo, please make a report.

Keiichi Aritomo, Representative Director, The Consortium for Japan International Asset Management Center Promotion: My name is Aritomo. Thank you very much for your participation in the face to face interview, as well as your very candid feedback. Please refer to the material. Page 2 please. The main point of this interview, on top of the public forum, such as this one, to have deeper and clearer understanding of each committee member's perspective. And I am sure you are working under different capacities. What we are interested in is not representing each organization, but we wanted to ask your personal opinions. That is why we conducted the interview. I am also a member. I conducted an interview of myself, and that result is also reflected here.

On page 3, I have 7 questions to outline. First of all, let me explain the meaning of these questions. One, on Tokyo's competitive advantage as a global financial city. We should not emphasize too much on the weakness. Instead, we should emphasize and capitalize on all of Tokyo's strengths. Second, as Governor Koike has mentioned, macro economy is changing, so under the circumstances, serving as a tailwind for Tokyo to serve as a global financial city. Third, we have to formulate the strategy and implement them. Maybe the possible impediment factors, and how to work on them. We sought that advice. Fourth question, as you are well aware, since the latter half of the 1990s there have been a number of proposals presented for Tokyo to become a global financial city. However, that has not been materialized, so what were some of the lessons learned from the past? Fifth, what are some of the other things that Tokyo learned from other international cities? Success was mentioned by Governor Koike, we should not be NATO, not action, talking only. In order to maintain momentum, continuous moving, what are some of the priority measures that we should focus on. That was the sixth question. Seven, for Tokyo to gain success to become a global financial city, what are the metrics for that success?

Page four please. What are the competitive advantages for Tokyo? Many people pointed out the abundance of domestic funds, comfortable living environment, orderly laws and business, and also the depth and breadth of the Japan's industries. But, on the other hand, we are maybe complacent to the strength that we can offer. We have now been very proactive in promoting to overseas. We might have placed too much emphasis on rules and order. If we deviate from the order, there are two parts of social sanctions. Therefore that might be hindering the diversity of the talent and creativity.

It is not clear the relevance to finance, but rich food, and art culture, this might not be just the traditional culture, but sub-culture, the popular food, the quality can be competitive compared with Singapore and Hong Kong. Tokyo is very attractive for high education standards. This was also cited until the high school years at a top notch level. However, starting from the university level we start to lose our competitive edge. This was stated differently: why don't we encourage students start working after graduating from high school.

And historically Japan has been competitive in advanced technology such as machine learning robotics and artificial intelligence. These are the areas where Japan has a traditional strength. Itchitaro, which is a word processing software, or Go and Shogi machine learning algorithm, have been well established. And Pepper from Softbank, which is a well known robot, this has been developed. Doraemon, manga, Atom—some people are used to such a world view, and we do have a unique way of looking at the world. Robotics and AI, the United States has developed them for military purposes, they are not as transferrable and friendly as what we can offer here in Japan. That is a strength that we are not fully capitalizing on for Tokyo to become a global financial city.

Now, moving onto page 5. What are some of the tailwinds? As you are well aware, the inauguration of the Trump administration, as well as Brexit, is representing the pessimism that many countries are taking. From that sense, Tokyo is faced with a good opportunity to develop as an open, international city. Stated differently, the declining birthrate and the aging of society have opened up our eyes to the possibility to enhance the productivity of white collar workers, and as we can further accelerate the acceptance of the

foreign residence, we can further promote AI and robotics. Under the strong leadership of Tokyo, people have a high expectation, inclusive of TMG. Can we really catch up with those movements? People have raised some concerns there as well.

Next, page 6—impediment factors. As you are well aware, there is very deep distrust to the financial industry. Business leadership circles, mass media, dislike of the finance industry. Indirect finance has been the center in the financial ecosystem. But the investment value chain needs to be bolstered. That can bolster promotion. The term of finance should be revisited, to be inclusive of the concept of venture capitalists and angel investors, and so forth. Bankers, the sales rep, financial advisors from the banks, are not very trusted. However we do have high trust of AI, or to robots. So we should capitalize on the strength of the AI and robotics to further develop the international city. We have a strong attachment to “Made in Japan”. The competence we have in manufacturing capability. But we should not be obsessed with “made in Japan” that because there is no successful city thriving based on manufacturing. Many cities are thriving based on expertise in design. And Zen, or minimalist design is popular outside of Japan as well. So, people do have a request from that perspective. So Tokyo can be a center from a design perspective as well.

There is a potential for Tokyo, inclusive of TMG, the expedience of the administrative bodies, and inclusive of TMG, once again. TMG bureaucrats are not necessarily very proficient in English. Will we have a bilingual service, which might be something innovative for this meeting?

Now moving onto page 7, lessons learned from the past, and why we were not successful in the past. In the past, there were no organizations to promote Tokyo to become a global financial city. In other words we were relying on the autonomous efforts of individuals or local government. But once every two or three years other people would be transferred. So we would lose continuity. As you are well aware many Japanese are studious and diligent, and so very good at researching what others are doing. But that has become the objective in itself. So we should maybe change the operation to collect up the facts, come up with hypothesis, and verify them. This advisory panel will continue for one year, but we should not for

that long. We should not just be compiling a report at the very end, but we should implement actions that we can implement right away. We should not wait until the very end to compile the report. And we should not just give preferential treatment to foreigners, or those who are wealthy. The competent talent needs to be attracted, allowing the support to industry. That is the type of message that we should disseminate.

Page 8, benchmarking against foreign international cities. As I mentioned earlier, a research survey itself should not become the purpose. New York, Singapore, Hong Kong—these are already mature financial cities. But there are other cities we can learn from. What is common here? There are a number of commonalities. Government is very serious for attracting talent, and they are doing guidance for innovations, and promoting the specific incentives are being presented. At the same time, when it comes to finance, or the practical work, many in the government are focusing on the arts. Creative cities see the development of the arts, with so many people having liberal ideas. That is a tendency. For us, here in Japan, Tokyo is such a beautiful city. But we focus too much on order. So we might be too stringent. We are not relaxed enough.

Paris is working on globalization, but their labor regulations are too stringent. Some companies are reluctant to enter Paris. In that sense, the labor protection is too stringent in Japan. Why don't we relax conditions in a special zone?

In Nordic countries, the population was aging earlier than Japan but digitalization of finance has been taking place. There are so many things we can learn from them. In any case. Tokyo should not just try to emulate other global financial cities. We should clarify what our strengths are. Looking at some overseas cases, we should work hard so that we can build our own capital advantage. Those are the common points raised by almost all members.

Lastly, page 9, what are some of the measures, and how about the priorities? There are some key terms mentioned. As the TMG policy planning bureau has mentioned, for promotions to attract foreign countries, several measures were mentioned. Take for example investment, education, reviewing taxation, and communicating overseas, and using AI, robotics, emerging advanced programs. There are many issues being raised. These seem to be very diverse, different key terms being used. However, these are not independent, but there are relations to each other. Take for example artificial intelligence, where Japan always has strength, or robotics—how can we capitalize on them into investments? There are some cases capitalizing on those technologies. Competent FinTech companies, or asset managers—in order to attract them, inclusive of the taxation, we have come up with a good incentive system. To capitalize on the special zone, we should give special treatment to further promote financial innovation there. Through EMP we should develop human resources, talents. So the financial ecosystem needs to be transformed. That is the story that we would like to build, so that the investment planning value chain can be established.

What continues from here, who will take the action, and what are the objectives are something we have to further clarify. Maybe we ask for the feedback moving forward as well. I seek for your kind cooperation.

Atsushi Saito: Thank you very much. As it was just presented, it is a diverse range of views that were collected through interviews. As the Governor said, we should not have vacuous ideas, but have to put them into concrete actionable items.

Well thank you for responding to our interview. The appendix shows individual proposals. I believe that every member gave us comments on where to focus on and what we need to be careful, considering the feasibility based on their expertise and knowledge. And today, in our discussion, so that we can narrow down our focus, we would like to fully use these experts' opinions.

I would like to use prerogative as a chair, and I have designated some questions for the members of the Advisory Panel, and I have asked them to prepare some responses. So, I would like to ask the Advisory Panel members to provide us with the concise response. And it is also permissible to comment on areas other than the area that you were designated to comment on. But, please keep it three minutes per person. And as for Mr. Kindred and Mr. Koll, they will speak later. It is a special opportunity for them to give presentations. And before that, on behalf of Mr. Kunibe, and because of his previous engagement, he could not be in attendance. And instead Mr. Tamura is in attendance. And Mr. Inano is also represented by Mr. Ishikuro. I would like to ask Mr. Tamura and Mr. Ishikuro to make comments if necessary.

Regarding education and human resource development, there were many opinions collected in the interview, and depending on the interviewee the proposals are quite wide ranging. Some are focused on primary education; some are focused on highly skilled financial professionals and engineers. The focus is, to realize global financial city Tokyo. What will be inclusive to realizing global financial city Tokyo? What are the policies that should be implemented? With that in view, please, share with us your views starting with Professor Kawamoto please.

Yuko Kawamoto, Waseda Business School: Thank you. This is Kawamoto speaking. Thank you for the question. As the chair mentioned, education covers the primary and secondary schools education, a version of public, and it can be for financial professionals, and for non-financial professionals such as engineers. But first of all, in primary and secondary school, they have to understand decimals and fractions to know the concept of the interest rate. With that knowledge and skills, they could understand finance. So, the priority is not education about finance. Rather they have to do the math. And then with board games imitating life, they can learn more. Also I have an impression that the current comprehensive learning to study about the society given in primary and secondary schools are good ones. But in high schools, it seems that systematic knowledge is not given about economics. And finance is discussed in the context of capitalist and imperialist development, for example. This is, I believe, is a long term issue to be considered. As for general public, this is not education but investment experience where they could learn. So NISA and other financial instruments and products should be made more prevalent.

More importantly, there should be education on finance in universities and in graduate schools. And the skills of people in financial world in Japan should be strengthened. Although there are about 100 graduates every year from Tokyo Metropolitan University, Waseda, Hitotsubashi University and so on. So far Waseda has 1,500 graduates from finance graduate school. But the problem is whether they are given proper evaluation and hired by financial institutions, in order to increase overall level of Japanese financial sector. And even if a student does not study at graduate school, I think there should be continued learning and studying, even after joining the financial sector.

Short term courses and inviting experts from outside, and collaboration etc. are recommended by many advisory members. But for that, more English proficiency is needed. Even in when opportunities, like Nobel Laureate visit to Japan without simultaneous interpretation, there are not many audiences who understand the contents, so English specialist education or professional education in English, is also a higher priority issue.

In any event, in order to increase the overall level of financial sectors, the relevant measures need to be implemented. Waseda began education for finance in English last year, and students are quite excellent. However, they struggle to find internships opportunities – these are non-Japanese students – struggle to do even an internship in Japanese corporations, let alone finding jobs in Japanese companies. When they are utilized in actual society, education will be useful. But starting from education maybe difficult. Specialist skills and knowledge will be utilized after being acquired in university, when there are opportunities in corporations. So I think there should be an environment, developed inclusive of the acceptance by corporations as well as macro environment, such as many M&As, curve-outs by big corporations, more listings in Tokyo stock exchange and so on.

In AI, artificial intelligence or robotics, and computer science education, these are also important areas of education, data science and startup courses for FinTech. And I think it is worth considering strengthening these areas. So, that is my comment on education.

But I would like to make a few more points. There are many proposals to reduce tax rate, but according to what I have heard, corporate income tax and corporate residential tax, these two local taxes are excessively charged in Tokyo. The standard rate is 29.97%. But it is 30.86% in TMG. And in Osaka, it was down to 26.56% in special zones. I am not an expert in the tax area, but starting from where we are able to take actions is important. That is one point. And another is, this may be a minute detail, but to develop a living environment for non-Japanese residents was also included in the agenda. Japanese couples are trying to find child care facilities desperately, but for non-Japanese residents why are they able to hire nannies so easily. I am wondering it is catching up with western country type of mindset immediately after the war. And so this meeting, except for Governor Koike and I, the members all are gentlemen. So I hope there will be contemporary outlook on these issues. Thank you very much.

Atsushi Saito: Thank you very much. I am sure that there are many points. But first, Mr. Sayama please,

Nobuo Sayama, Representative Director, Integral Corporation, Professor of Graduate School of International Corporate Strategy of Hitotsubashi University: I am Sayama. In terms of the final output of this Advisory Panel, I think people and capital are critical. In terms of people, we need to gather talent into Tokyo from all over the world. As for capital, it is important not to focus only on gathering capital in Tokyo but to enhance flow of capital in quantitative manner in Tokyo.

We also need to think about education from these two perspectives. Regarding education, the important thing is to nurture the talent in Japan, improve in terms of quality, and retain them in Japan. It is contrary to our purpose if people whose skills were enhanced move overseas. We want Japanese with high skills settle in Japan. On the other hand, we need to invite financial personnel with high capabilities from other countries and also to enable them settle in Japan.

Regarding education from elementary school to high school, I think that investment education is difficult for students younger than teenagers. And basically I think we can start investment education from around junior high school or high school. I think that there is other, more important content for students to learn in elementary schools, junior high school and high school, apart from studying personal finance. It is important that students get interested in finance when they enter the university. And it is also important that they foster basic academic skills until that time, I think these educational outcomes are what we should aim for.

Next let's think about education at universities and graduate schools. For example, I teach M&A every Friday at Kyoto University. Many graduates and postgraduates from the Department of Economics and students taking MBA have misunderstanding that M&A is something like a vulture. But, as they learn about it, the number of students with great interest in M&A increases. Unfortunately, the timing of the lesson is such that it happens after the recruiting season.

Although this is not limited to this case, I think that the old system of recruiting should be stopped. For example, even if students get a job in their first year, no one should stop them from looking for other jobs the next year. It is not a lifetime employment economy as in the past. The world is full of people who change jobs three years after finding employment. I would like you to eliminate the concept of everyone in Japan getting a job at the same time and then starting their jobs at the same time.

First of all, make university students get interested in finance. Currently, Hitotsubashi International Business Strategy Graduate School is a university for adults, and there are 42 to 43 people in one class.

Surprisingly, most of the students graduate with a totally different mindset. That is because the school imposes quite difficult assignments and it also requires them to submit a master's thesis that analyzes a large amount of data. I think we should increase the number of educational institution such as Prof. Kawamoto's place, in order to increase the number of highly skilled people. However, as has been mentioned, we also need to retain those people. That is another important aspect. Because many people will change jobs, Japanese companies have to have a good evaluation system.

And to attract overseas talent, awards similar to the Nobel Prize in economics should be established by Tokyo. If winning this Tokyo award could lead to a Nobel Prize in the field of economics, then young people may aim for it and come to Tokyo. Moreover, if the symposium can be held along with the celebration of the Tokyo award, it can generate the image of Tokyo as the global financial city. Time has run out. There are more things I would like to mention again if any chances. Thank you.

Atsushi Saito: Thank you very much. We have few months' time for discussion, so we would continue with the discussion. But at the moment, I would like to move along. I am sure there are many comments and opinions

Professor Kawamoto mentioned that industrial level overall is low. And there are many members attending today from the industry. But if we get into the discussion, we will run out of time. So I will proceed.

On page 14 there is a topic concerning taxation which is much talked about, and there are many ways to look at the taxation. We have experts, Mr. Makino and Mr. Suda. Mr. Makino, siding with you regarding taxation, there were some interviewees who said that this is a high hurdle, a difficult problem to solve. But, what can we do in revising taxation? What approach we should take, as seen from an expert? What will be an effective approach? Mr. Makino please.

Jiro Makino, Vice Chairman, The General Insurance Association of Japan: Regarding the tax system Professor Kawamoto made a very important point, and there is not much to add to that.

In this advisory panel, if it is getting to the discussion of trying to change the Japanese tax code, that will be very difficult. Globally there is heavy scrutiny of tax evasion and erosion. And there is also a very strong notion of equality in Japan, that changing Japanese tax code for Tokyo is difficult to obtain agreement from the member of the National assembly, even if the member is elected in Tokyo.

So first, we have to make efforts ourselves and try to make change happen. There is local taxation mentioned by Professor Kawamoto, such as local corporate income tax and local corporate residential tax. And there should be efforts made by the Tokyo Metropolitan Government itself.

Since it will be very difficult to change the Japanese taxation system, we should utilize the national strategic special zone system. Tokyo is a national strategic special zone, and there are tax incentives provided within national strategic special zones. So we should utilize what is already available to us. And based on what we already have, if that is not convenient enough, there should be change for the better. My view is that, we should make the best use of national strategic special zones. This system, under the initiative of METI so far, may not be user-friendly for the financial sector. So in that sense, to make it more convenient to use for the financial sector, what needs to be done? Based on the existing national strategic special zones, any shortfalls should be identified, so that we can fill in those gaps. I think that is the approach we should take.

So, efforts should be done by the Tokyo Metropolitan Government itself, and where there already are precedents, then I think it is not impossible to make changes. So, we should study what options are available already, and modify them as needed so they are easier to use. And if there are still shortfalls, we should think of something new to be added.

R&D tax incentive was also mentioned, but it seems that this idea is based on a misunderstanding. In the service sector, it has not been possible to apply for these incentives. But because of IoT, Internet of Things, I heard that, in 2017, R&D tax credits will also be applicable to the service sector. So, we have to publicize, do an outreach of what taxation incentives there are which we can potentially use in the financial sector. The officials should do that outreach, and industry should make efforts to understand more about the tax code. That is all. Thank you.

Atsushi Saito: Thank you very much. We got tough comments against taxation of Tokyo. Well, Tokyo's tax rate is exceeding 30%, whereas the national average is at 29%. And, Osaka is intentionally making tax on real estate to zero. This is one of the topics that we should take up. And about special zone, I think we should further discuss. Mr. Suda please.

Toru Suda, Certified public accountant: As shown on page 9, interviews with 15 members were conducted, and to 12 of the members, or maybe more, the review of the taxation system is recognized as a major issue, which is one of the distinctive outcomes of this interview result. Details are specified on page 14 and many feel that tax is one of the important cost elements. Tax is a 3-dimensional concept, the result of a three-part formula. The formula for a tax will be "tax rate times the tax base amount times the type of tax" to represent many different types of tax that are levied.

But tax rate is one of the components that attract people's attention. Countries imposing high and low tax rates can be easily distinguished when compared with other countries. But, tax base is the important point. The tax base includes deductions, tax exemption, etc., so if we do not consider these matters and make a comparison based only on the tax rate, then the audience will misunderstand. The media picks up tax rates, even though they are superficial, because it is easy to bring up as news, but the reality is different. That's why we will have to think about the tax base along with the tax rate.

Also, Japan's tax system does not suite well with the financial services transactions area. Some might get upset by mentioning this, but for example, the concept of present value does not exist in Japanese taxation law. It is just a simple calculation. So, it is necessary to include such kind of concept as we examine the current tax system. The financial services industry is very progressive and fast-changing. Japan's taxation system cannot adequately respond to and keep up with the pace of these developments. The issue is, whenever we launch a new product or a new financial services transaction, we do not have the means to examine the treatment of these new products under existing tax rules. The insufficiency of a preliminary consultation system is the weakest point of the Japan's taxation system.

This means that it is not predictable to know the outcomes of taxation. It is necessary for the national government to recognize the lack of predictability as a critical risk for the country. Each country's taxation system continues to evolve based on changes in the economic environment. Changes do happen, but the lack of predictability is a critical obstacle in starting new businesses, so the national government should make efforts to secure predictability.

And, as for the permanent establishment tax, as you are all aware, The Long-Term Credit Bank of Japan, which Ripplewood acquired with a warranty against defects, is an example. At the Diet, finance minister Miyazawa was asked the question, “Can we tax when the Ripplewood sells its equity stake?”, and he answered “No, we cannot.” His response got the public’s attention, and it led the authority to change application of tax rules just by making notification.

The fact that Japan has changed the application of tax rules based on a simple notification or interpretation may result in the instability of the taxation system. It is necessary to adhere to taxation law principles and to secure the predictability we need. Of course, it is no question that tax evasion is unacceptable.

And, on page 14, we see that many detailed suggestions are described, and going forward it will be necessary to lobby by analyzing the taxation formula from different standpoints - from the points of view of consumers, investors, and corporates. As was raised previously, we also have to comprehensively examine the current tax system by including a review of regional taxes. .

Atsushi Saito: Thank you very much. Tax is a major issue. A very big issue. So, at some point in time I think we should have a focused discussion. Not only is it a matter for Tokyo Metropolitan Government as a tax collector, it is also a matter for the national government, and it is also important for finance, as it was mentioned. So those who are involved should have a very thorough discussion to acquire thorough knowledge of taxation, so we can make advances. That is what I would like to ask the secretariat to consider.

Moving onto the issues of FinTech and sandbox, I would like to ask Mr. Kariyazono, Mr. Taniya, and Mr. Yamaoka, three members of the panel to respond. On page 15, answers on FinTech, on page 16, answers

on sandbox are given. There are actions to nurture FinTech, and there was a proposal on sandbox scheme to develop FinTech players in the U.K. And perhaps people may be familiar with this, and some people are not so familiar with this. And I believe report on sandbox started to appear since last year. So, we would like to seek opinions in developing FinTech, including other ways than using sandbox scheme, starting with Mr. Kariyazono please.

Soichi Kariyazono, Chairman, Japan Venture Capital Association: Expanding on the FinTech theme, it is very pleasing to hear many references to AI/Robotics. Artificial intelligence and robotics are stated together with a slash between these two terms but it is necessary to clarify the difference of these two things, about how these technologies will be used for. As for artificial intelligence, this can be used in investments. I am thinking about creating a city gathering investment managers specializing in artificial intelligence-based investments. I strongly am supportive of this idea.

On the other hand, I think that robotics is a different area. In the world of FinTech, robotics is more frequently used in settlements than in investments. And other themes for robotics are autonomous driving cars and urban transportation systems. Settlements for investments, and another closely related area impacting the general public in their daily lives which is automation of payments using FinTech, are elements closely related to robotics.

Japan enjoys a daily lifestyle where transportation and financial services are closely integrated. People can pass through the ticket gate by using their transportation cards and, at the same time, add up points; many feel that this kind of lifestyle is convenient. Speaking about mobility, by making the inbound route from Narita or Haneda to the center of Tokyo a place where cutting edge FinTech technologies such as technologies for settlements and technologies for a new urban transportation system integrate, we can

make Tokyo a showcase of a new urban lifestyle. , . I am hoping that as we further consider AI and robotics, these two perspectives can be taken into consideration.

And as for the subsidy for attracting tech savvy talent, I am supportive and we should adopt these perspectives. To attract them, employment in Tokyo is something that we have to think about. I think this should be an opportunity for Tokyo to learn and improve too. So, I think this should be a condition, that new firms will offer employment opportunities. And on the other hand, make them do the investments. Tokyo has various fiscal resources. There should be an idea, such as Tokyo provides the availability of funds and investment opportunities, and ask them for something that benefits Tokyo as a return.

As for a FinTech museum, the regulatory sandbox is related to this. In special zones and through deregulation, Tokyo itself can become a FinTech museum.

Lastly, about the regulatory sandbox, I think we should make advances with a regulatory sandbox by all means. Local and national governments, private companies, and educational institutions should be working together. Regenerative medicine is a successful example that we should learn from in Japan. Nobel laureate, Professor Yamanaka's iPS cells have been a catalyst for the national government to take initiatives and revise the law and make Japan a country where one can get permission in a high speed. Since then many companies in overseas recognized that it is worth doing business in Japan, and I heard that businesses related to iPS cell have been coming to Japan increasingly. Related to sandbox, deregulation, there is this successful example. I hope we can learn how to utilize the special zone system and attract companies with advanced technologies, and make it realize.

Atsushi Saito: Thank you. Mr. Taniya, please.

Mamoru Taniya, Chairman & Founder, MONEY DESIGN Co., Ltd.: Mr. Kariyazono has given a comprehensive opinion, and there are many interesting points that I agree. AI and robotics are very interesting; at the same time nobody knows what type of business and of technology will be successful. So it would be more interesting if we could invite venture capital of FinTech to gather FinTech venture companies and they start various FinTech businesses from Japan.

In Singapore, what they have done in the past is the government does the matching funds to funds, VCs once they could raise fund from investors. And if the invested companies became successful, the fund could buy it back as a bond with a 10% rate. For unsuccessful cases, these remain as equity. For fund asset manager and LP, these are really nice terms and conditions. So, highly capable talents were attracted to Singapore. This can be applied to FinTech venture capital. So for the venture capitalists, in the field of FinTech, it would be great to prepare some kind of scheme of matching. The case of Singapore might be the extreme case, we might not have to go that far, but it is better to come up with some supportive measures that assist higher return in order to attract highly-skilled talent. After that you will have the choice to select the best talent among them. If it is difficult to revise the tax system, we need to come up with ideas that increase their profit so that highly capable talents will be attracted, and then we can select out of those competent talents. That is another approach that we might be able to take.

If we want to do several things in the field of FinTech, It is not good enough if we start only Japanese people. We have to consider allying and partnering with people from other countries like Silicon Valley, but everyone already looks to Silicon Valley so we have to look all over the world. It is difficult to find someone who majored in computer science in Japan, but in India and Israel, there are so many talents. Japan is a good place to live, so I believe many of the people in India and in Israel are willing to live here.

Why don't we consider partnering with venture companies in India and Israel, and make it easier for talents in these countries to come into Japan? If we could make such a mechanism, I am sure it would be so interesting.

I have not confirmed this, but something I have heard, Tel Aviv was successful in attracting LGBT people, and they made the city as a creative city. I think it is another interesting idea. To be a minority friendly city; since many LGBT people tend to be creative, it would be interesting to become a city that proactively invites LGBT people.

Now, related to the special zone, personally speaking, it is not easy to set up a venture company in Japan. Because when something new is introduced in Japan, sometimes it tends to be in a gray zone legally. However, when authority says it is not allowed in Japan, atmosphere of the society gets denying and harsh, and so it is punished a lot socially. As for Uber and Airbnb, they started out in the grey area. So in a special zone, why don't we loosen the conditions or rules? I do not know the specific ways to materialize that, but if we can create such kind of special zone, we may be able to attract interesting venture companies.

Now, in the field of FinTech, in developing countries such as India and Africa, there are many interesting things coming out of those countries, one reason is that they don't have established infrastructure. Another reason is they took drastic policy. These are why very disruptive companies emerge. If we are to have a special zone, why don't we create a city zone where cash payment is not allowed and only way of settlement is through mobile phone? That seems to be interesting.

Atsushi Saito: Thank you very much. Mr. Yamaoka please.

Hiroshi Yamaoka, Director-General, Payment and Settlement Systems Department, Bank of Japan: First, I will comment on the issues regarding FinTech, AI, and regulatory sandbox. Since this is the second meeting, I would like to talk about what we can do immediately.

Indeed, Tokyo is a megalopolis with urban characteristics. Nonetheless, we should get rid of untrue “urban legend of Tokyo as soon as possible, if any.

Some countries such as Singapore and the United Kingdom have introduced regulatory sandbox. But, not so many people know what specific regulations have been lifted in the sandbox, or how they have been loosened.

In fact, some measures in the sandbox are still in the pipeline. Nonetheless, firms sometimes argue that they have decided to do FinTech experiments in some specific countries “because they have regulatory sandbox”. In fact, FinTech experiments executed only within the firms may not be under financial regulation also in Japan. If Tokyo Metropolitan Government issues e-money that can be used only by the government staff and only at the canteen in this building, there would be no financial regulation on that! So, if people tend to believe it difficult to do FinTech experiments in Tokyo because there is no regulatory sandbox, I would say it is untrue “urban legend”.

Actually, many firms tend to believe that the authorities in some countries “seem” especially friendly to FinTech because they have introduced regulatory sandbox to attract FinTech. Indeed, “sandbox, I think, is

a very clever naming. For some countries, the word of “sandbox” is a part of their campaign strategy to send the message that they are friendly to FinTech, so as to attract FinTech industries.

Now, Tokyo really wants to attract FinTech, and the Governor Koike is truly making her best efforts. We have to bear in mind that global competition to promote FinTech industries is a race against time. As Mr. Taniya already mentioned, the speed of businesses is really important for FinTech. In the document provided by the TMG staff, I think there are many good materials that can immediately be used for external communication. Therefore, I believe it would be better to immediately start communicating to the public that “Tokyo is friendly to FinTech”, also through making full use of these materials.

In order to promote such communication strategy, we can think of several phrases such as “FinTech Tokyo”, “Tokyo Technopolis” and “Tokyo Sandbox” to stress the friendliness of Tokyo toward FinTech. As Mr. Taniya mentioned, it is quite important to attract foreign innovators who have excellent ideas. So it would be also important to communicate also in English. Nowadays, the top officials of the Bank of Japan, including Governor Kuroda, frequently make speeches on FinTech, and we always publish them both in Japanese and English, simultaneously.

As for AI and robotics, this is typically an area where there is close collaboration between government, academia and the private sector. Many of the experts on robotics and AI whom I met in relevant international conferences have also worked as professors of natural sciences in universities. Moreover, in foreign countries top universities are often outside of the very big cities, and located in, for example, Boston and Palo Alto in US and Heidelberg and Gottingen in Germany. On the other hand, although

Tokyo is a giant city, there are also many of top universities such as Waseda, which has its campus also in Nihonbashi, where the head office of the Bank of Japan is also located.

Now, universities have to make more effort to seek for funding sources for their research activities. In such environments, I think Tokyo can serve as a catalyst to connect academia and industries. As Mr. Sayama mentioned, it would be fruitful to create the opportunities that are beneficial both to academia and industries through, such as, holding conferences and giving awards. For example, the Bank of Japan held a joint-conference on FinTech with the University of Tokyo, and it gathered much attention and was beneficial to both academia and practitioners.

I think Professor Kawamoto had raised important issues. Since the Bank of Japan deals with macro-issues, I would like to make brief remarks also from macro-perspectives. Many people talk about why bank deposits are extremely large while asset management businesses are underdeveloped in Japan, and some people argue that the lack of financial education is one of the reasons. Nonetheless, the most dominant reason behind deposit-oriented portfolio composition is that stems from macro fundamental environments. At the bursting of the asset price bubbles the Nikkei Stock Index was about 38,000, and now it's around 19, 000, almost a half of the peak. Under such circumstances, Japanese people did not have good memories of successful investments in equities. The most successful investors were the ones who deposited their money into fixed interest rate postal savings, whose yield exceeded 8 percent at the bursting of the bubble.

Accordingly, we need to recognize that many Tokyo residents have preferred deposits rather than equities with being based on rational judgment, and not because of a lack of financial education. So, public

opinion may not support the argument that the lack of financial education leads to the dominant presence of deposits. Needless to say, since we need to make this reform successful, it is extremely important to ensure public supports to the reform. For such purpose, we need to make comprehensive and consistent communication to the public.

Moreover, commercial banks are not willingly collecting deposits. Especially in the regulatory framework introduced after the Lehman Crisis, banks with bigger balance sheet are under heavier regulatory burden. Consequently, most of commercial banks want to make their balance sheet smaller, and actually overseas banks are trying to do so through imposing “account maintenance fees” so as to avoid accepting small deposits. On the other hand, Japanese banks continue making efforts to accept deposits, including those with small amounts. In order to make the reform successful under such environments, we need to carefully consider various factors, especially if we have to set some targets on the amount of AUM.

For example, if many of Japanese commercial banks start imposing account maintenance fees on bank deposits, they would lead to the decline in the volume of bank deposits and, as a consequence, the amount of AUM might increase. Nonetheless, public opinions would not support such developments and, eventually, they might oppose to the reform itself. Therefore, I believe it is important to have comprehensive communication strategy, which pays due attention both to the developments of financial assets of Tokyo residents and to people’s access to basic financial services, and fostering FinTech in Tokyo could also contribute to the latter purpose.

Atsushi Saito: Thank you. We are running 15 minutes behind the original schedule. Mr. Kindred, and Mr. Koll, we will run out of time for their presentations. So Mr. Iwama. This is about the new investment manager development measures. So please make some comments.

Yoichiro Iwama, Chairman, Japan Investment Advisers Association: I strongly recognize that our industry has been asked and urged to enhance our investment skills and capabilities to much more sophisticated level. That is really a big challenge for us. Of course existing players, asset managers continuously should make their best efforts, and each player has been trying to further develop their skills every-day. However, stimulating innovative ideas for the industry, new innovative entrants who have unique strategies and skills should be invited to join us. That will stimulate the activities of our industry and lead our industry to upper stage.

For the existing players, increase of new entrants means much keener competition. So, they might not welcome new competitors. However, I personally think, we should have a broader perspective.

Emerging managers' program—EMP is an idea which I think something we should be ready to implement. There are several markets which already introduced this kind of program. Actually, in these markets, large scale public pension funds and so-called endowments reserve certain amount of seed money funds to invite new developing managers to well-diversify their portfolio. They earnestly invite new ideas for investment and talented people to manage a portion of seed fund, watching and overseeing their capability and performance for certain period. If a trial is a success, the player is formally qualified for the mandate. Only the organization which have deep pocket and afford to supply risk money on longer term can run this type of program. If the TMG were to start such a program, this was an aforementioned point, by Mr. Yamaoka, inclusive of the managers, that will utilize FinTech; we have to first of all establish a framework. Not just the overseas players, but the new players from the domestic market should be able to participate in such a program, so that we can make headway in this area, which I am sure will be very effective.

Now, earlier, we talked about education. We will try to develop and grow talent. However, there are many unsuccessful cases in the company and they leave the workplace. I myself had the experience where we tried to avoid that. But, new talent needs to be attracted and cultivated and stay longer. I myself am willing to run some investigation in there.

Atsushi Saito: Thank you.

Next, on the question of promotion, based on your own experience, I would like to ask Sir Roger to comment on promotion. If Tokyo is to create a promotion organization, what should Tokyo be mindful of?

Sir Roger Gifford, Chair, Green Finance Initiative, City of London, Senior Banker, SEB: Thank you very much. And, may I say how impressed I am by the materials, and by the ideas that are coming forward. Many of these are familiar to us in London as being positive building blocks for creating new interest in what London can offer.

In our experience, a single body, talking strongly for the benefits of Tokyo financial services, is a very positive thing. And that is discussed in the papers. I love the idea that you are going to have your own version of a Lord Mayor. And the mayoralty is 800 years old in the United Kingdom. So, good luck creating this concept in a short time. But, it is exactly the right way of thinking, to have a single body that is promoting the Tokyo financial services.

I reflect when I am reading the papers, that the issues of taxation, and living conditions are important here. It is important that the language and the messaging are correct. But, overall as a non-resident in Tokyo, or somebody outside the financial center, of course I want to know: what are the profitable opportunities

for growth? Where am I going to find the opportunity to make good business, and grow a business over time, longer than just a few months? And, therefore, in these papers I would like to see more focus on the positive areas to develop, because that would make me more excited about the concept of coming and investing further into the Japanese market.

In addition, a number of the phrases used are interesting. The sandbox phrase is an interesting one. So is the concept of a new lifestyle. Because Japan comes across as positive in the west, as a place that is dynamic, through lifestyle, through food, even through manga, which has been a revolution around the world. The new lifestyle concept is very exciting, and takes it away from just being a purely profit issue.

In terms of promotion, our experience in London has been that there are several waves of growth over time. And the first wave is always to increase the existing business that is already here. So some major landmarks in London's development, for instance when Citi Bank moved its global foreign exchange desk from New York to London in the 80s that created a huge amount of business, which added to the operations already in London. That single action by Citi Bank was probably responsible for the dynamic growth in the overall foreign exchange market in London from that time, and then in the derivatives, and clearing and other markets.

But, once existing firms have increased their business, then other firms notice that the business is increasing, and they come over. And that, very often, brings new business too. This is all rather obvious, but we have noticed those separate waves. So the City UK, the promotional body of the City of London Corporation, the promotional body that we are using, very much focuses on positive opportunities, and then looks at how to develop those in specific areas.

Legal services is one that we focused on in the last 10 years, and we now have some 200 law firms based in the City of London, operating throughout Europe. It was a positive and specific campaign by London

to bring that business in. Other examples include FinTech, Islamic banking, RMB trading and Green Finance. Now this same body has to deal with the issue of Brexit, and what happens with that. So it is performing another additional function from the earlier one of promotion, but still with a positive, constructive agenda.

In conclusion, I can say again I am impressed by the material. Thank you very much. It is a pleasure to participate in this discussion. I would like to see more focus on positive areas for development, certainly around FinTech, certainly around investment opportunities. I would like to come back to a point made in an earlier meeting, about the connectivity between different cities. It is very important, in the future, that we are working together, which is why London is very interested to work with Tokyo on this. We do not see this as a competition issue. Thank you very much.

Atsushi Saito: So much for the session to solicit the opinion based on the interview results.

Now, the Secretariat has written to ask for the comments of Governor Koike. But why don't we move on, because we can solicit the Governor's comments later on.

So, two members, Mr. Kindred and Mr. Koll, we will hear their special presentation, for the next 7 minutes.

Jonathan B. Kindred, CEO, Morgan Stanley Japan: I will be under the direction of our esteemed Chairman. I will be very expeditious. But let me just preface this by saying that I appreciate the stewardship of the Chairman, and the leadership of Governor Koike in this initiative.

I am going to represent the views of the foreign banking community here. The IBA Japan represents 54 banks and securities companies from 21 different countries doing business in this marketplace. We also

have 31 associate members—to Roger's point—across legal, accounting, and data services, which are critical parts of the financial ecosystem. The perspectives are going to mirror some of the comments earlier, but I think you will also find it a little bit different. So, if I might direct you to the first slide on page 2.

Although this is intuitively understood, I think it is important to highlight that, given questions were raised about why Tokyo has declined as a financial center within the Asian region, since the early 1990's, it is useful to provide a perspective on that. Indeed, when I first came to Asia in 1989, the Hong Kong offices of global financial groups were very tiny, compared to our offices in Tokyo. Today, virtually all global financial groups have their Asian headquarters in Hong Kong, and the human resource and activity footprints are substantially greater in that city than in Tokyo. It didn't happen because Hong Kong has lower taxes, and English as a primary language. It happened because the macroeconomic flows in China have been so much more substantial than in Japan, over this period of time.

Macro is critically important. And if we think about Tokyo as a financial center, we need to be thinking about how macro can be better in this country. The financial institutions in foreign countries will invest and grow here, if we think we can sustain profitability. And that is critically dependent on macro flows. So, if I might now go to the next slide, on page 3, and building upon this point, about macro, and micro, we think it is important for Tokyo to define itself as what it is as a financial center. There is no one size fits all model. I would say London operates very internationally, in intermediating currency flows, and flows from multiple geographies. But, New York is international primarily because it attracts many foreign participants who want to access the US macroeconomic activity and capital markets.

So, we believe Tokyo should build its strategy as a financial center around facilitating and growth of Japan's very diverse economy. And, importantly, supplementing the structural reform agenda, of Abenomics, through very active use of the Tokku Framework. And, what I mean by that is, by effectively implementing third arrow reform policies that are otherwise difficult to implement on a national basis, within the Tokyo Special Economic zone.

Structural reform is critical for macroeconomic growth here. Improved productivity and innovation, capital allocation will lead to more growth. Two great examples, the corporate governance code, and the stewardship code that were implemented, already leading to a pickup. For instance, if we look at the rationalization of large Japanese conglomerates, we are already seeing an immediate pickup in M&A activity, restructuring activity, and yes even private equity activity, is picking up as a result of this. Cross shareholding levels are way down in Japan, foreign ownership is up—it is driving return on equity, in an upward direction, and shareholder engagement is moving in an upward direction. And that feeds into the asset management focus, which has been talked about in previous comments.

Japan has a substantial amount of under-optimized wealth, from an investment perspective. And Tokyo can really grow as a center, by optimizing the redeployment of that. And it wasn't a bad trade to keep money in low yield deposits, in 20 years of deflation. But now it is different, once we get to an inflationary environment. So we have a great opportunity here.

And the other point I would want to make here is financial sector infrastructure. Japan should focus, and Tokyo can assist with that on growing clearing and settlement mechanisms, to make the Yen and JGB's more actively used globally. Build on the scale of the Yen product markets, to seek to add on other flows within Tokyo that span the region. The Japan Securities Clearing Corporation is by far the biggest clearing organization within this time zone, and has a huge native base of business in Yen derivatives. It can use, should be encouraged to use that, to build out clearing activities, across other Asian markets, for instance in Asian stock financing.

If I might move onto the next page now. We have laid out what we think are strengths to build on, and challenges in which decisive action needs to be taken. In the area of strengths the depth of the capital markets, large diverse universe of globally competitive corporations, huge investable asset base, strong rule of law, excellent financial regulator, and I would emphasize that ever since the start of the Better Markets initiative, and Better Regulations initiative under Commissioner Sato, almost 10 years ago, and

carried forward today by Commissioner Mori, we really think the Japan FSA is the best global financial regulator. And that is a huge asset for Tokyo, to build strategy around. And I say that as an international banker. World class technology and transport infrastructure. Efficient, attractive, clean, safe public amenities. Clean spaces. A lot of foreigners, who live here and have spent time here, think that this is a very livable city. There are no problems with that. And there is obviously a very highly educated and motivated workforce here.

Challenges to address. English language utilization is too low. And we cannot get around the fact that English is the global language of commerce. And for Tokyo to grow as an international financial city, there needs to be more professional utilization of English. Onerous and uncompetitive taxation system. We are not going to point to personal income tax rates. We think that something—Japan is a large social-democracy, and there needs to be fairness and payment for the infrastructure. But there are issues with certain areas, and I will come back to that in a moment. Overly restrictive labor regulations. We need more flexibility. There is no legal framework for severance here. Companies need flexibility in order to start businesses and grow businesses. There is a perception of excessive rules and bureaucracy, that maybe doesn't match current reality, and we need to do some marketing around addressing legacy perceptions that are no longer relevant.

Firewall regulations, we were asked to comment on—what is different in Japan than in other markets? Japan has, we think, the best financial regulator. But the last remaining barrier that is different from other financial markets is the firewall regulations, which make it cumbersome and hard for financial groups to operate, across their different legal entities within this market. There is an overly commercial, bank centric financial structure here. It has some impact on the development of the corporate bond market, we believe. Also, it makes it difficult for foreign banks to compete in commercial lending.

Lastly, there is a cultural mindset that is averse to risk taking and wealth creation.

If we could move on to the next slide. I'm not going to walk through this Manga story; we thought we might employ a little Manga. We'll leave that to you to read though. This is a hypothetical story but it is a very real risk that foreigners think about when they consider coming to Japan, the inheritance tax regime is very onerous. It was put in place several years ago, largely to discourage tax avoidance by Japanese nationals, but it had an unintended consequence of bringing into scope all global assets of every foreign resident here. Now there is a change underfoot that is referred to in one of these examples but it is a half-way measure. It still leaves the kind of exposure that is described in this story of John and Linda Smith and Shige and Mieko Yamamoto, so I would encourage you to read that, and perhaps I would like the chair to allow us to come back to that at some point when we have more time.

Let me conclude with some very specific recommendations. And I want to note that IBA Japan has worked on this issue for a long time and we've put forward a whole series of recommendations over the last ten years. And we've included those as an annex. I've listed eight very specific things which we think are actionable and would have impact. So, we've already covered the financial center promotion office, we think led by a private sector CEO would be important, global marketing, tracking KPIs, providing continuity, revising relevant tax policy, inheritance and corporate tax rates, which have both been talked about earlier, but also simplified administrative procedures. The overseas asset reporting, frankly, is very cumbersome to foreigners; to have to list in your tax return every single asset you own overseas that is worth 100,000 yen. Can you imagine a Japanese going to a foreign country and having to list every single thing? It's very cumbersome. Expanding the scope for disclosure and corporate reporting in English, revising labor laws to encourage more hiring through a legal framework for severance, expanding the NISA, simplifying and standardizing asset management, reporting and documentation, the financial literacy initiative which was also referred to and then addressing the sales practices in the asset management industry, where distributors are really incentivized to churn, and this is a matter we think of building on the good work that the JFSA has already been pursuing in this area. So, with that I'll wrap, Mr. Chairman, I hope that was fast enough for you.

Atsushi Saito: Great, great. You did the perfect job.

Jesper Koll, CEO, WisdomTree Japan Inc.: Thank you very much honorable Governor Koike and honorable members. As I knew I was going to be the last speaker today, so I thought I'd shock you a little bit at the outset. On the first slide, you see a sumo wrestler fighting against a little boy -- that looks like me as a young boy when I arrived in Japan in 1985, standing against Konishiki. And since then, I have always worked in Tokyo financial markets for several large and some smaller organizations. But I chose this slide because it symbolizes to me much of the debate about Tokyo as the financial center -- like the small boy against the giant sumo wrestler, this debate is always about the impossible fight, about little Tokyo catching up to big and successful New York. Can Tokyo ever become like New York? In my view, Tokyo must find its own position as a financial center rather than just imitate New York. And 2017 offers a great opportunity to do so because New York finance is under disarray because of new rules and regulation potentially upsetting the status quo; London's future is also confused because of Brexit; so Tokyo has a unique chance to create a new global standard. Just as Governor Koike said: focus not just on the quantity, but focus on the quality.

On the next slide you find a quote from America's new President "you're going to have to think anyways, so you might as well think big". This sums up exactly the ambition for Tokyo as a financial center. This Committee must strive to think big.

Discussion about the Tokyo Financial center seems to me to focus on "Center", i.e. the hardware and the structures. Obviously this is very important, and we've got many experts here who look after the hardware extremely well. What I want to do in the next minutes is to focus instead on "Finance". Tokyo can only become a leading financial center if it focuses in finance and allows finance to grow as a science, as a

profession, as an entire Eco-system. Because finance is a lot more than "buying low, selling high" or trading products.

Let us remember what is the goal of finance? It is an entire ecosystem with the goal of creating economic growth and innovation. And yes, it is economic growth for Tokyo, economic growth, for all of Japan; and yes, for the world.

The other goal is one of pride, professional pride. When I visit a Japanese corporation, be it a chemical company, or a car company, or a logistics company, there is a very strong sense of pride that managers have, pride in their company and pride in their profession. At their core, Japanese managers want to be the best in the world at what they do. They are proud master craftsmen. In contrast, when I meet Japanese bankers or asset managers or insurers they seem to lack this professional pride, they know they are not the best in the world and somehow don't aspire to become the best. Big contrast to other industries in Japan. Why is it that Japanese finance regards itself as second-best? To become a leading financial center, Tokyo's financial leaders must have high ambitions, must actually desire and want to be the best in the world -- Have ambition, set the global standard. Growth obviously comes through innovation and entrepreneurship and this must start here in Tokyo - not just following New York or London. Governor Koike points in the right direction and wants to create an environment where finance facilitates innovation across all industries. That is the beauty of finance, because finance allows other industries to thrive and grow. Tokyo must aim to be the place where entrepreneurs can go from innovation to actually setting up new companies. Clearly, innovation for innovation's sake is useless and there are plenty of examples unfortunately in Japan where Japan was the front-runner in terms of innovation, but never developed the business model to capitalize globally on this innovation. I remind you of I-mode, the first

ever wireless platform which was developed in Japan but was rendered meaningless by other global systems later on. It never, ever came even close to becoming the global standard.

Another issue we need to be clear about is "What is the future of finance?" Again, a financial center will develop if is prepared for the future, not when it tries to catch up to the past. The good things are that we know where finance is going. There is a lot of technological change, global megatrends are coming through, everything is growing faster and faster and faster. I thought it was interesting to come across this statistic: it took 38 years for the radio technology to reach 50-million customers but for Twitter it took only nine months to be adopted by 50 million users.

For finance, where we are going is clear -- blockchain is the future. It will radically change and affect every aspect of financial transactions.

I'm interested in the discussion we have about FinTech. In Japan today, everybody is keen on FinTech, FinTech, and FinTech. However, without a global standard is useless and will result in more failure and wasted entrepreneurship. I am worried that, just as I-mode never made it beyond Japan; much of Japan's FinTech will die a quick death.

My proposal? Today, we have bitcoin. Nobody trusts bitcoin, whether it is because of Russia, China, or whether it is - who knows? But if Japan gets together and creates an agreed standard, a "TokyoCoin" or a "JapanCoin" or a "SamuraiCoin", that would change the global game. If the big mega-banks, together

with the bank of Japan, backed by the government of Tokyo, create the standard that will become the global standard -- "Tokyo-HATSU global standard". And with this official backing we can then really talk about FinTech, about Japan leading the global FinTech revolution. If Japan does not create the benchmark blockchain unit, the risk is very high that the global standard will come from somewhere else. Now is the chance because nobody has the ambition or determination to create the global standard. The government of Tokyo and Japan and the Japanese mega banks must seize this unique opportunity. "JapanCoin", "SamuraiCoin", "TokyoCoin" -- the sooner Japan creates the standard, the better the chances for Tokyo to become the global center for the future of finance.

So that's the future. But what is today's reality in Japan? Have a look at some of these charts to see where are the opportunities? Japan has enormous underutilized assets with cash balances at both households and corporations at world-record high levels. Companies, for example, hold more cash on their balance sheets than the value of Japan's annual GDP. Cash is king and it is a cash culture, a culture of holding zero-interest earning assets.

Why such a preference for cash? We can make a very complex argument about this, a decade of deflation, policy mistakes etc. etc. Interestingly this cash preference is not because Japanese asset managers are bad at their job. If you look at this slide, here, you see that Japanese portfolio managers actually out-perform their benchmark in domestic equities at a much higher rate than American managers do in their own domestic market. Of course outside their home market, Japanese managers are very bad when it comes to managing international equities.

Still the question remains, why do Japanese customers not shift out of deposits? Again, there are many reasons, but in my view, high costs are a key reason. Any discussion about a financial center must be frank and open on the cost of doing business for the final customer, the retail consumer and investor. And in Japan, the cost of investing is simply too high.

In Japan, I often find that financial innovation does not focus on what matters most, the customer experience. One of the first and most impressive things I learned when I came to Japan: the customer is the god. But can we say this is true in Japanese finance, where the costs of investing in mutual funds or other products are one of the highest in the world. A key goal of financial innovation must be to bring the costs down so that the Japanese customer can actually benefit. Lower fees will be essential to aligning the interest of the financial firms with the interest of the customers is very important. Let me use this example from the US where more and more of the securities companies and brokers now make more money in custody or asset management rather than churning and transaction. Other world, where the interests of the brokers and financial firms are 100% aligned with the customer.

What does that mean? Again, Tokyo can set the global standard with full transparency and aligning the customer's interests with the interests of the broker. Full transparency, full accountability, full alignment of interests. I'm happy to elaborate in the next couple of meetings on this a little bit further.

By the way, there is actually a growing economic urgency to mobilize retail and corporate cash balances. This is because one of the unfortunate realities in Japanese finance is that the financial system is de-facto being nationalized. In Japan's biggest market, the bond and debt market, the Bank of Japan now owns

more than forty percent and controls almost all of the flow activity. For now, the debt nationalization will continue, but at some point the BoJ will have to start to sell these assets again, i.e. the bond market will have to be re-privatized. This "exit" will only be possible if private savers will step-up and buy. Here, bonds are the extreme case, but a similar argument holds true in the stock market because of the BoJ ETF equity buying program. The urgency to create a viable platform for the private investor to return to the market is key -- the success of Tokyo as a financial center will depend on the success to bring a "Democratization of Finance" to Japan, i.e. create an ecosystem that cultivates securities investments rather than bank deposits.

Now, in the interest of time, let me highlight some concrete proposals to help create this ecosystem. First, remember that finance is what? Finance is information arbitrage and to do that you need data. Japanese data is not "best-in-class" global standard. So, if we talk about Tokyo as a financial center, being a world-class data center is absolutely important. Giving incentives and forcing better regulations on data management and availability must be part of a Tokyo financial center strategy. And this can go beyond just Japan financial data. The good news is nobody trusts Chinese data, nobody trusts Asian data. If the Japanese were to compile Chinese data and make it available in Tokyo, this could become the global gold standard for Japan and Asian and China data.

The next and second part of the ecosystem is the academia. Right now, the teaching of finance and the standing of finance professors is second or third rate citizens in Japanese universities. We all agree that financial education is important at the grassroots, but the problem needs to be addressed top-down. Finance is a serious academic discipline. Finance has extremely high regard - it is much more of a science than economics. So we should reward academics in finance and create an annual "Tokyo global Finance

Prize" for best academic research paper. Moreover, this prize should not just be for theoretical and applied finance, but also one for statistics, and one for also data management and computing. It is very important to reward and incentivize the top levels of academia.

Finally, the third part of the ecosystem is the media, both traditional media like newspapers and TV and new media like social media. And again, how do I reward and incentivize the media? Well, again, I propose a "Tokyo finance Media Prize" for the best financial coverage, for the best corporate analysis, and yes, for the best financial blogger.

So, my time is up, and I hope you get my message: we are going to think anyways, so we might as well think big. I know Japanese committee don't like to think big and like to focus on details and specifics. But to become a leading global financial center, the ambition must be great -- the goal must be to set the global standard for financial best practices from Tokyo. I know this can be done -- think big and achieve big. Vielen dank, thank you very much.

Atsushi Saito: Danke schoen, thank you very much. And thank you for your tireless efforts, we have somehow managed to keep time and I am sorry I am mostly working as a time-keeper. We have ten minutes until 5:55 for discussion. I'd like to receive a couple of comments. Today's discussion will be the basic and I think we should have more following discussion at a later date in a separate session. I think we should have more in-depth discussion.

Mr. Suda and others commented about the issue of taxation. And there was also a mention of Hong Kong and Singapore, and what about their social system? And for Hong Kong and Singapore, what is the social

welfare system? Taxation is a combination with the social welfare system. So, if we discuss only taxation, it may be interesting but tax authority does not take this seriously when we make a proposal. We have to make a professional proposal, for it to be realizable. I think past failures were that proposals were not actionable or realizable. So we would like to make a professional proposal, based on in-depth discussion. Mr. Tamura and Mr. Ishikuro are also here. There were some comments directed, in a critical way, to you. So if you would like to rebut or react?

Mr. Tamura, Planning Committee Chairman, Japanese Bankers Association: Thank you. There were some comments from Mr. Koll, which I do agree. In the automobile sector, Japanese companies are proud, and trying to be number one. But in finance that is not necessarily the case. I was listening to Mr. Koll's presentation and I thought that we should reflect upon our past thinking.

Interviews were conducted with the panel members, and the compilation of their feedback has been done. There were many useful comments. Mr. Kunibe mentioned that Japan is about to move out of deflation, so this presents a very rare opportunity. There are many good things on the list. There are things we can do now, and things that are possible over the medium to long-term. And there are things doable by the Tokyo Metropolitan Government alone, and things that are beyond TMG's authority. So we should classify accordingly, and select items that are actionable.

On the other hand, in the finance sector there are banks, brokers, insurers, asset managers. There are many different business types, and their needs toward the financial center are different. But if we have too broad a target the discussion will be too broad, and too thin.

In the last meeting Mr. Kunibe said that we should aim to become Asia's financial hub. As a competitive advantage of Tokyo, there is individual wealth in Japan, and that wealth could be deployed to promote growth in Japan and Asian countries. Based on this idea, there are two proposals. The first proposal is to invite foreign asset managers, and the second proposal is to focus fully on FinTech sector which could be new engine for financial sector.

Even when we say that it is necessary to focus on asset management, banks need to get involved and take many measures to achieve success. As the Governor also mentioned the importance earlier, the National Government's measure to establish firm fiduciary duty will support the flow of cash from deposits to investments, which will lead to attract asset management companies to Tokyo and enhance their business. We should put customers first, and also promote NISA utmost. And we are making efforts so that customers will not say the robots or AI are more dependable than the human managers. These are what Tokyo needs to take on the path to becoming a truly global financial services center.

Atsushi Saito: Mr. Ishikuro, do you have any comments?

Atsushi Ishikuro, Chief Officer for Planning & Public Relations, Japan Securities Dealers Association: Thank you. To strengthen the asset management industry, as Mr. Iwama has mentioned, I think the introduction of the Emerging Managers Program would be an effective way. For improving the quality of investment managers, educational and training programs at graduate schools or others, and the cross appointment system should be available, so that they can learn and study while they are employed. Through the introduction of such systems, we can upgrade the skills of the managers.

Mr. Koll, in his presentation, talked about the cost. Let me talk about that. In his presentation, transparency as well as aligning the interest of investors and sales companies is set as a goal. From this

perspective, fulfilling the fiduciary duty is an important challenge that securities companies need to address. So the goal he set seems to be correct.

I will talk about the fees. In terms of the market indexes, the US Dow hit the \$20,000 level while Nikkei 225 once reached \38,000 and now hovers around \19,000, once touching below \7,000. So the market environment that we should be benchmarking is very different. Under the circumstance, Japanese managers and securities firms have been very creative in trying to meet their clients' needs by providing various types of products. Therefore, as to the fee difference between the United States and Japan, we should have a cool-headed analysis to consider what action should be taken. Such a perspective needs to be incorporated. That is it from myself.

Atsushi Saito: Thank you. Japanese assets management, in terms of basis point, is achieving better performance. That was very surprising. But, the benchmark itself is very bad, so beating it does not mean a good return. So, if a return is sufficiently good, I am sure investors would be willing to buy financial instruments. When we were selling mutual funds, people were queuing up to invest in mutual funds. Even housewives were lining up. There were queues of people going to brokers, two or three times. But at the time, managers did not learn their lesson. They only sold products. So, with Mr. Iwama, based on experience, we would like to identify deep rooted problems.

It is without doubt that performance is not good. And excellent Japanese managers are not working in Japan, they are working in Scotland, or London, or New York. Japanese companies visit these places for investor relations. Most of the fund managers for Japanese equity are Japanese. When we ask them to come back they say no, because there is no freedom. And they say that Japanese are too bound by seniority, based on the year they joined the organization, and compensation is not high enough. Companies in western countries are performance based, and they might be fired if performance is bad. But the magnitude of compensation is very different.

We have to think about various aspects and various systems in order to make Tokyo attractive. So we would like to continue discussion on these points. Governor you still have five minutes for concluding remarks. Please.

Governor Koike: Thank you very much for very concrete and specific presentations and responses. I would like to thank Sir Roger for participating from London. We received very concrete suggestions.

Under the new Trump administration, what tax rates and reductions will be made, it is not clear. But, during the campaign, I believe I think he was saying the tax rate will be cut from 40% to 15%, as I recall. And earlier, as Prof. Kawamoto mentioned, and as Mr. Makino mentioned, taxation is not only a matter of the Tokyo Metropolitan Government, but ultimately it is a matter that we need to work with the national government. 29.97% is the standard corporate tax rate, but in addition, Tokyo charges 0.89% higher, 36.86% in total.

From Jonathan Kindred, there was the issue of inheritance tax. Rich people cannot die in Japan, in a nutshell. But that has already been addressed, and there is some improvement made. Even if foreign expats die in Japan, or if their relatives, such as parents, die in foreign countries, there has been a revision of the inheritance tax, so I hope you will stay here even after your retirement and enjoy Japan. But, in any event, what I wanted to say is that there has been an improvement. And, we should make further improvement. In a way, there may be high-skilled financial talent refugees, who are trying to flee the Trump administration. We hope that they will want to come to Tokyo, and we have to appeal to them. We have to send a message, and have them see the message.

What Professor Kawamoto said is that there will be a program that makes the non-Japanese easier to hire their housekeepers, or nannies. There are many different people, and they say that many Japanese women also like to avail themselves of these services. So why is this limited to non-Japanese? I think that was the gist of the question raised.

Same could be said to the Tokyo One-Stop Business Establishment Center. For startups, procedures to establish companies and regulations are very complex and difficult to understand. That is why we started this Tokyo One-Stop Business Establishment Center, where it supports startup from before operations begin; from the egg until it hatches with multi-lingual support. But, I came to think of it, that this is a service that Japanese people require the most.

But, in any event, to attract talent and funds from overseas, we hope that these measures will make Japan and Tokyo more attractive. And various infrastructure and environment will have to be developed, so that Tokyo will be a better place to work. For example, as you know, international schools, there is a plan to establish an international school in front of Tokyo Station. There is MediLocus, a hospital with a medical service non-Japanese can be provided, by non-Japanese medical doctors. This is also about hardware infrastructure—to make Otemachi to Kabutocho the Wall Street of Japan. Walls might be built up to Mexico, but in Tokyo we should develop Wall Street.

So, that is the direction we should pursue. And, one by one, I would like to come up with a clear answer and action. That is a way to prevent totally no action. It used to be the practice that we took no action, but we should by all means avoid being talk only and no action.

And special zones should be utilized, in coordination with the national government. That is also something that I would like to do. In that respect, we would like to learn from the examples of regulatory sandbox. But, in the case of Japan, it is not a sandbox but a jungle gym. So this jungle part, we have to make it clear, and provide information to overseas.

I forgot to mention paperless, and large volumes of documents are distributed. I would like to make sure it is paperless from the next time. It will be paperless, and language should be both English and Japanese. I am using Japanese, but at least documents should be bilingual, in English and Japanese. And they

should be published immediately. This is a race against time. Jesper mentioned this as well. It is urgent. We should not be left behind. And that is an awareness that I strengthened. Together with you, I would like to think big, and achieve big. Thank you for your support and cooperation.

Atsushi Saito: With that the meeting is adjourned. The secretariat might have some announcements. The minutes will be distributed. Please confirm them later. Next meeting will be on Tuesday, February 14. Please leave the headset on the table. Members of the media and the press please return the headset at the registration. Thank you.