

Advisory Panel for Global Financial City Tokyo (Seventh Meeting)

(Transcript)

September 12, 2017

Venue: Tokyo Metropolitan Government 7th floor of Building No.1

1 Opening

Secretariat: As our scheduled time has come, let us begin the seventh meeting of the Advisory Panel for Global Financial City Tokyo. Thank you very much for assembling today despite your busy schedules.

Today we are pleased to welcome two guests. Governor would like to introduce them to you later. Today's schedule and discussion materials are in the tablet device. Please find the members present today in the participant list of Material 1 and the seating chart of Material 2 in the tablet. Materials in the tablet will change automatically in line with the presentations.

In addition, the English guidebook on procedures needed for registration / licensing that has just been completed have been placed by you. These procedures, which have also been reviewed by the FSA, explain procedures for registration / licensing so foreign firms can easily make entries to Japan. This will not be used today but is provided for your reference.

Now, to begin this meeting, we will have some words from Governor Koike.

2 Address by the Governor of Tokyo

Yuriko Koike: Hello everyone. Allow me to sit. Thank you very much for coming to Shinjuku today. From London, we have the familiar, Sir Roger Gifford and from Hong Kong, Mr. Taniya. Hi. Thank you very much for your participation.

TMG has developed Interim Report on Policy for “Global Financial City Tokyo” this June. There are a number of specific actions that are already undertaken. I would like to introduce two of them. First, in order to give easy-to-understand explanations of how to apply for registration as a financial instruments business operator (for foreign firms), we have compiled an English guidebook. The FSA has also reviewed the contents, and we would like to distribute this to those who are interested in investing in Tokyo as much as possible.

Second, as for the TMG Accelerator Program, eight companies have been selected from 52 firms from 16 countries. Each company will be brushing up its business plan as the presentation approaches in late November.

Today, our guest speaker is Mr. Hiromichi Mizuno of GPIF (Government Pension Investment Fund). And, also thank you, we have Ms. Champion from the British Embassy Tokyo to present to us in perspective of investor and of a foreign government. Thank you for your attendance.

In addition, we would also like to have a presentation and time for exchange of opinions on EMP (Emerging Asset Manager Program), one of the proposed measures in the Interim Report. EMP that I am referring to here is about investments. Lately, more attention has been given to North Korea’s EMP. Our EMP today, is both peaceful and something constructive.

Furthermore, if I may go on for a little while, the second edition of our magazine introducing Tokyo in English is completed. We’ve received positive feedback so far. These have been placed in executive rooms in Tokyo’s major hotels and some people even take them home, which may be good news for us in a way. We’ve put in our best efforts to prepare this.

At coffee time, please enjoy the fruit of the season, pears. I was in Fuchu this morning, at Tokyo Metropolitan Nogyo (Agriculture) High School. These pears have been grown by the students there. Please enjoy these pears known as “Hosui” (meaning abundant water) brand and is very juicy. Agriculture in Tokyo has potential, such as help preventing Tokyo’s heat island effect. There are issues of productive green space and others, but what is important is that children of next generation learn from agriculture which is the most basic and primary industry I would like you to taste the harvest by the next generation children.

Thank you for your time today despite your hectic schedule. Please provide us your energy and cooperate with us to create an energetic, new Tokyo. Thank you.

Secretariat: Thank you. Chairman Saito will now facilitate this panel.

3 Meeting Minutes

(1) Presentation

Atsushi Saito: Yes, thank you. Let us begin. As was mentioned earlier, before we go to the agenda, please take a look at the front page of the English guidebook with FSA's logo. I understand that the FSA has reviewed this guidebook. The guidebook contains very precise rules such as the time required to start operations is between 4-6 months, illustrated in a binomial chart and is very easy to understand.

The important point here is that foreign firms would expect these to be true. I hope FSA with its logo, guarantees that there would not be an instance where a foreign firm applies and has to wait for one year from filing. Just an additional point from me.

Now, we shall go to the agenda. Today we have guest speakers, Mr. Mizuno and Ms. Campion. Panel Member Aritomo will also give us a presentation. I would like to welcome questions and comments after each presentation. Please refer to Material No.3. Mr. Mizuno, could you please start?

“Tokyo from the Viewpoint of Global Investors”

Hiro Mizuno, Executive Managing Director & Chief Investment Officer,

Government Pension Investment Fund, Japan

Hiro Michi Mizuno: I'm Mizuno of GPIF. Thank you for inviting me to speak today.

I was wondering what to present as GPIF today. What I am frequently asked as GPIF is, don't many asset managers visit you? From global investors, the three public pension funds including GPIF, known as “3 Kyosai” (mutual aid associations) together have 200 trillion Yen worth of assets, that approximates to the total of all asset owners. Tokyo's attractiveness from foreign financial institutions is clearly, the fact that there are large asset owners concentrated in the area. This is a great competitive advantage for Tokyo.

On the other hand, there are a number of things that I was surprised when I became GPIF's CIO. One of them is the fact that Japan's asset managers' competitiveness has declined. The reason why I say this is because while I did not select the asset managers, GPIF's asset managers for Japanese equities are mostly non-Japanese. There's a misunderstanding that has been going around that “Mizuno does not like Japanese and is avoiding Japanese managers.” This was true even before my days. There are numerous pension funds overseas like us in the U.S. and Europe and when they consider investing in Japan, one would think that they would hire a Japanese asset manager. However, due to the competitive landscape and restrictions, Japanese asset managers' competitiveness is probably falling and the foreign asset managers' share is increasing. While the foreign asset managers' share is increasing, GPIF's managers are directly linked to Japanese.

I've prepared some materials. P.7, is P.7 correct?, sorry, it's not P.7, but P.8. P. 8 shows the breakdown of GPIF's current mandated asset managers. GPIF outsources assets of approximately 150 trillion Yen to be managed by 35 firms. On the right you see (17). This shows the number of foreign asset managers. They do not have a license from the FSA. Since GPIF cannot outsource to managers without a license by law, what's happening is that while the assets are managed by foreign firms, we end up outsourcing to either Japanese or foreign asset managers with licenses in Japan. In turn, they further

outsource and provide funds to be managed by foreign fund managers.

When you observe this reality, you may have several questions. From GPIF's viewpoint, there is one extra fee layer, meaning that there are unnecessary fees being incurred for managing public money. Another point of concern is that GPIF may not have access to or have the ability to approach other excellent asset managers overseas.

As an example, GPIF seeks asset managers for foreign equities via a manager registration system. We have received applications from over 319 funds globally. This is a large number but we do not know if they represent the best managers for us. I cannot provide specific names or figures but we have requested our consultants to see if any of the managers that have applied are those that the consultants have ranked highly in their global assessments. In reality, highly ranked asset managers have not applied by a large proportion to GPIF's manager registration system.

Based on this, GPIF has adopted a fast entry system since over a year ago. Originally, GPIF's manager selection process was reviewed once every 3 years and was an extremely official, bureaucratic process. Managers were sought every 3 years and the next selection did not take place for another three years. Since last year, however, firms interested in managing GPIF funds can submit applications any time via this Manager Registration System to a platform operated by Mercer. With this system, we do not have to ask good managers to wait for three years to apply. Yet, the concern of not having the best remained and we've conducted an experiment.

To qualify as GPIF's manager, a Japanese license was necessary and those firms without a license could not even apply. The only choice for them was to either obtain a license or partner with someone who has a license. We have introduced a category, "information only registration" that allows for firms to provide information about them while they may not have the qualifications to apply.

We have received 82 applications, rather registrations to be more precise, for this category so far. These people would like to manage GPIF funds and are confident. They do not have a partner in Japan nor do they have a license. I have been discussing about these issues with the FSA for more than a

year and I would like these managers to come to Japan. I've been jointly managing an asset management firm for over 20 years abroad but Japan's FSA is not very popular among overseas asset managers. FSA's reputation is negative, such as enforcing onerous procedures. Yet, when I worked with the FSA, I found them to be extremely workable as a regulator and from all fairness, there is a big misunderstanding. I have provided information about "the information only" asset managers to the FSA and have held discussions so that the process could possibly be accelerated for them to be considered in the first screening as firms with minimum eligibility for licenses in the future.

Also, Governor Koike has taken office at a very good timing and TMG is also interested in this. For these asset managers to enter Japan, they not only need to obtain a license but there are also many other things that need to be prepared which TMG is undertaking. If this program proceeds, (1) GPIF will have access to a broader universe of asset managers, (2) GPIF may potentially eliminate an extra fee layer and (3) FSA's reputation may rise globally. And lastly, I shouldn't be saying "last" as TMG invited me, but this should also contribute in making Tokyo a global financial city. At present, GPIF would like to actively introduce motivated asset managers from the information registration only category to the contact of both TMG and FSA.

A specific example of this is FSA's press release on Legal and General on August 4. Legal and General is an asset management arm of an established UK insurance company. I would say "fast track" but FSA uses fast entry so I will adopt that but FSA has accelerated the process for them. Legal and General was able to obtain a license in about two months. Currently it is staffed with 9 people of which 6 are located in the Toranomom office. GPIF has discussed with Legal and General's Chairman and president in London about this process. They were also focused and they also comprise the Japan entity's management team. This type of activity is extremely beneficial for all.

I may be running out of time, so skipping a little, page 10 indicates the asset managers GPIF has been communicating to about their Japan entries. GPIF has also clearly expressed that we would like them to obtain licenses in Japan.

Next, another theme TMG is discussing is ESG. I would like to provide GPIF's perspective on ESG.

If you could kindly go back to P.5, currently GPIF is actively promoting the integration of ESG in our investment chain as ESG index was adopted for Japanese equities. This is based on the concept that it is paramount to secure sustainability of the entire system for long term asset management performance for organizations like GPIF, a universal owner, with assets of 150 trillion Yen investing in thousands of companies globally and bonds of countries, both developed and developing. The UK has had leadership on this topic, as we also have participants from London today. PRI, of which I am a board member, now based in London and originally a United Nations initiative, has been promoting ESG from the investors' perspective.

On the other hand, companies and governments support the United Nations' SDGs (Sustainable Development Goals) efforts. What I would like to convey in this slide is that if companies and governments are committed to society in the long term, this will lead to a long-term, sustainable increase of shareholder value. Investors focusing on ESG will automatically put funds there, creating a Win-Win circle.

I believe ESG efforts for Japan, especially for Tokyo to differentiate and compete with other global markets, is right on target. GPIF is investing about 1 trillion Yen in the ESG Index. What I have been strongly addressing during this process is that Japanese companies are extremely good at using this model of focusing on long-term value with many stakeholders. This model in itself represents Japanese society. Since the Japanese are not good at making rules or disclosing, GPIF has adopted MSCI and FTSE Russell as index appraisers for our ESG. We have disclosed their methodology for assessing ESG. If Japanese companies can refer to it, I believe ESG of Japanese companies will significantly rise among global investors. This, I believe can be one differentiating factor for Japanese companies to compete.

If I could add one more, I've heard that some form of award, like the Tokyo Financial Award is being discussed. GPIF has also begun GPIF Finance Awards since last year. We intended to do this for Japan's international recognition in finance as this was rarely done previously. We were somewhat ambitious and named it in English so Japan can take some theoretical leadership in finance and

investment. GPIF would like to support such efforts and we are in alignment with TMG.

Finally, I would like to discuss the difficulty that GPIF is facing in Japan. This slide shows how GPIF uses and can use custodian services. Custodian services have turned global now. Yet, GPIF can only use Japanese trust banks and due to this restriction, asset management has been very complex for us.

This may be beyond TMG's scope but this represents a similar situation to the license issue previously mentioned. Imposing all activities to go through Japan just because we are in Tokyo, has been difficult for GPIF as we operate in a global finance system where assets are put to work 24 hours. The other day we were conducting a RFI for optimizing asset management operations. It was extremely difficult to translate into English because there is so much terminology in Japanese finance that cannot be translated. May I request, therefore, that when TMG communicates to the world, that the language not be in Janglish (Japanese English).

Apologies for taking a long time but this ends my presentation. Thank you very much.

Atsushi Saito: Thank you. I was surprised about many things I heard. Since it is past thirty, let's do a free discussion for about 20 minutes. Please freely comment or ask questions. Yes.

Keiichi Aritomo: Mr. Mizuno, thank you. I'd like to confirm a few points. When you mentioned about custodian services, I believe it's driven by the domicile of the funds. For GPIF, fund domicile needs to be Japan based and therefore using Japanese trust banks. I wonder if GPIF can be more flexibility about the fund domicile so that global custodians can be utilized. Also, GPIF is the world's largest public pension fund and the ticket size needs to be large to work. How small can you make the ticket when outsourcing to asset managers? I think it is currently USD 1 billion in AuM. Are you able to reduce the the AuM threshold going forward? And recently, you attended a Japan venture capital association of meeting chaired by Mr. Kariyazono and mentioned about expanding investments to asset classes encompassing venture capital. Would GPIF be diversifying investments to not only long-only asset managers but also to absolute return hedge funds taking short positions in the future?

Hironichi Mizuno: As for fund domicile, i.e. where the funds are located, GPIF is by law restricted to investment vehicles in Japan. This is not easy to change. On the other hand, there are many Japanese investors who have had bad experiences investing in overseas funds. GPIF needs to learn from experience to gain confidence to invest abroad.

As for fund size which pertains to fund managers' expansion of investment strategy, for GPIF, we require a minimum of 100-200 billion Yen. For example, if we could double 10 billion Yen to 200 billion, this doesn't have much effect on GPIF's total assets of 150 trillion Yen. From GPIF's fiduciary position, the fund size needs to be relatively large or if a small fund, it requires a meaningful degree of excess returns for our business model to work.

On the other hand, I also hear that venture capital firms or funds would like GPIF to invest. From my viewpoint, we need to see the performance first. If I'm asked why GPIF is not investing in asset managers with good performance, that would probably come from our professional negligence or laziness. What's important is for the asset managers to explain to us how they differentiate from competitors and how they can increase performance. GPIF is a client (and we need to be told). Also, there are many discussions such as, why it has been difficult to nurture asset managers in Japan - GPIF's fees are low, why venture firms don't thrive – because GPIF does not invest. Again, GPIF is a client so as a premise, we would like you to provide services that we would want to buy.

As for hedge funds, honestly speaking, please do not expect much from GPIF. We manage everyone's funds that are here today at this table. There are those that would like us to take more risks and increase assets while there are those that wish us to safely invest and it's difficult for us to be aggressive. So, from that perspective, GPIF can take leadership on matters such as ESG as it affects the entire system. As for expanding asset classes and methodology, I believe there are others who can actively take more risks than GPIF.

Atsushi Saito: Yes. Thank you. Are there others? Yes, please.

Hiromi Yamaoka: Thank you very much, Mr. Mizuno, for your very informative presentation. I think we need to consider what kind of initiatives TMG can take. Since TMG is promoting the concept of “Smart City”, there are overlapping areas of what TMG wants to achieve and what ESG tries to realize. So, it would be nice if TMG can take specific measures regarding ESG.

I think that Mr. Suzuki and Mr. Mizuno have great expertise in terms of ESG, since they are actually selling or purchasing ESG-related investment products. So, if my understanding has any errors, please correct me. Looking at ESG markets from a central banker’s perspective, one of the difficulties in promoting ESG is who should assess the “social” value of companies, and how.

I assume Mr. Mizuno was saying earlier that while many Japanese companies are very good also in the context of ESG, they may not be very good at self-promotion or advertising. Then, who should assume the duty and pay the cost of assessing whether a specific company is good or bad from the viewpoint of ESG? Would it be securities firms, investors, or fund-raising firms? Such assessment may not be an easy task, since most firms may argue that they are also good corporate citizens. If a company, which was formerly assessed as a “socially” good company by an analyst, is revealed to be a “black company” exploiting employees, the analyst would face a difficult situation. The assessment of whether a specific company is “socially” good would be more complicated than that of whether it is “profitable”.

Then, what can TMG do in terms of corporate assessment?. In this regard, TMG has adopted many initiatives such as “flex time” working hours, promoting the employments of women and handicapped people, and encouraging re-cycling in order to reduce wastes. So, one of the measures that can be taken by TMG is to create a database, which consists of the names of companies making efforts in line with TMG policies, such as adopting “flex time” working hours, employing females and handicapped people, and recycling their wastes. I guess TMG can establish the list of such companies on the condition that they request to be listed. Needless to say, there are some risks that “black companies”, which pretend to be good corporate citizens obeying TMG policies but actually exploit employees might also be included in the list. These risks, however, may be inevitable in this capitalism. I would like to ask Mr. Mizuno for his frank view on whether making such a database could be effective for promoting ESG or not.

Also, I would like to ask Mr. Mizuno whether there are some possible measures to fill the information gap between investors and issuers, and overcome the issue of information asymmetry.

Hironichi Mizuno : Ah, yes. ESG is about measuring the firm's quality of communication qualitatively. We're not thinking about who is to bear such costs, but we're thinking that ESG is an absolutely critical factor when considering the long-term sustainability of firms and financial markets. It's a necessary communication that is required and without it, firms cannot be valued. It's a cost to be shared by the whole society.

About, what TMG can do. It's a little difficult to say what TMG can do but one of the three indices of ESG is WIN, (MSCI Japan) Empowering Women Index, which we have adopted this time. We've requested MSCI to develop this index. I believe the Japanese government (Cabinet Office and MHLW) have set out laws to advance women's success in their working life and are creating a database. This is disclosed in the MHLW's website. MSCI uses this to quantify women's promotion at Japanese firms as a WIN index. WIN has become the world's largest index for promoting women. Amount invested differs by one digit versus the previously well-known SHE by State Street and Culsters. ETF has also adopted ESG so I believe this is probably the most popular index promoting women now.

Other countries asked MSCI to create WIN but they were not able to as they do not possess a wide database of all firms. WIN is a positive by-product as a result of the enforcement of Japan's law to advance women's success in their working life which allowed for data disclosure. If more data are disclosed, various ESG indices may be created. What I am doing now, is to motivate companies that want to be in the index by expanding disclosures. If providing data to a database becomes the norm, ESG investments may be further enhanced.

If TMG can slightly reduce taxes for firms scoring high on ESG, firms would be clearly incentivized. Since GPIF invests 1 trillion Yen for over 300 companies, companies should have some incentive.

Atsushi Saito : Yes, Professor Shimada.

Haruo Shimada: GPIF has vast funds to invest with expectations for global asset managers to manage them. I am and the world is aware that GPIF has built a very detailed database with ESG (Environment, Social, Governance) as criteria. If so, anyone who manages in accordance with these criteria is welcome.

With that, if Tokyo were to incorporate ESG, I was thinking that TMG is a public entity and not an investor. As there are so many global players in ESG, Tokyo may lose visibility. Governor Koike has been strongly addressing SDS, i.e. safety, diversity and smart city. For safety, since Japan has many earthquakes, it means that people in Tokyo are able to continue to live safely even if a large-scale earthquake like the one in Tohoku strikes. Diversity means that there are various people, young and old, men and women and foreigners - all living happily and issues such as employment, raising children, nursing are involved. As for smart city, technology is key and Governor Koike focuses on how to use technology to protect the environment. These all lead to a very clear standard.

To increase its visibility Tokyo can widely communicate the SDS standards to the global community, especially to major global centers where venture businesses cluster. Tokyo has selected 8 firms participating as accelerators and there are venture firms, both domestic and foreign, that are innovative, contributing to financial activities with SDS. They should be awarded.

I was thinking about the Tokyo Financial Award and that may be better. The scale may be smaller but SDS may be addressed more strongly and although Governor Koike might be busy, we should all make the effort together to tell the world of Tokyo's standards that "This is SDS". For ESG to gain a foothold, Secretary-General Anan in 2008, or was it 2004, decided on the 6 articles of "Principles for Responsible Investment" and campaigned heavily. Morgan Stanley, has the Sustainable Investments Institute for that purpose. Tokyo can easily obtain visibility if it requests Morgan Stanley at very hefty fees. If not, Tokyo can work on its own. Mr. Yamaoka has shared his opinion about Tokyo. Mr. Mizuno, what do you think about this?

Hiromichi Mizuno: As for me, I always say, not only for TMG but also for others that globally, ESG and SDGs are now widely accepted. If Japan were to come up with its own concept that's slightly different from them to spread to the world, I would like to ask everyone, "do you have the motivation and resources to do that?" I'm not so sure about that. If so, it is probably more efficient to go with the SDGs and ESG which are already accepted as the norm, and use them to win globally.

I received the same concern when I was doing work on ESG. They would say, in Japan, we need to consider the benefits of the customer, society and the vendor, all three parties, at the same time. Why do we need to go with a foreign-made rule? If ESG and the benefits we would like to consider are similar, Japanese firms can score highly.

People also ask what's the difference between ESG and SDGs. The reason why I have been consistently using ESG is because I believe that they represent the same values and it's better not to introduce new terminology. It is much easier for Tokyo to say it is becoming a leader in ESG than starting from a new concept. I believe that this approach was correct. While being a latecomer to ESG, GPIF was ranked No.2 in Innovation & Industry Leadership in UK's "RI (Responsible Investor)" after CalPERS after only two years of activities. This probably indicates that Japanese values were similar to ESG, while we increased reputation by optimizing their rules. I believe it's ok to use words that we like when we are talking to ourselves. If we are communicating outside of Japan, honestly speaking, introducing new concepts are costly and inefficient.

Atsushi Saito: Let's ask others as well. Mr. Suzuki, you are engaged in ESG. Please share us your views.

Shigeharu Suzuki: ESG investments were difficult to be accepted. I think it suddenly gained acceptance with Mr. Mizuno's GPIF adopting it. No one has been able to clearly prove that ESG investments performed well. I think it was remarkable that Mr. Mizuno promoted ESG with the concept that it would be definitely good, if a given firm continues its business on a going concern basis. We tried very hard but spreading ESG was not easy.

And one other point. It was said that there are not so many Japanese asset managers. The drastic change happened since Mr. Mizuno joined GPIF. Before that change, Japanese asset managers created funds as specified by GPIF's previous instructions. Since the system suddenly changed, the managers could not suddenly respond to it, resulting in the decline of Japanese asset managers. Since then, Japanese asset managers have put their act together to respond to it. The number of GPIF's mandated Japanese asset managers has slightly increased to 11. Please do remember that there was a need for the Japanese asset managers to adapt to the sudden change.

Hironichi Mizuno: GPIF is also growing so we may suddenly change during the process. We would like to continue to work together with those in the industry.

Atsushi Saito: Mr. Kindred, please.

Jonathan B. Kindred: To just pick on one thing that Suzuki-san said. I think part of the issue with ESG investment now is proof of concept. You referred to a disconnect between perception of performance versus the social good and actually, I think there is a demonstrated path forward that can link the two together and there is a real opportunity for Tokyo, to take the lead. Particularly with an investor like GPIF here following this path so clearly there is an opportunity for Tokyo to become really a center of excellence around statistically confirming the quality of return that can be generated by diversity in company management.

At our own firm, we have begun to do some research around this topic and we have demonstrated better stock market performance correlating well with higher levels of diversity metrics within company governance. This is still a very early emerging area, but it presents a great opportunity, I think, for Tokyo to take the lead by holistically bringing together research expertise, academic expertise and investing pools of money that are committed to this area.

Atsushi Saito: Thank you very much. Yes, Mr. Hirano please go ahead.

Nobuyuki Hirano: I would like to say a few things about ESG from the viewpoint as I run a firm. Since MUFG has traditionally recognized the significance of its social mission as a financial institution, we have been reflecting it in company management. This is the same approach as described by Mr. Mizuno that there exists the concept of “benefits for all three sides.” This year, however, I received an annual letter from Blackrock’s Larry Fink which asked, “Have you discussed ESG at your board meetings?” In fact, we have not, as a board member of our company here today may know. The concept has not become rules or systemized. At Japanese companies, the attitude of “It should be okay if we are doing it in a substantial way although it is not visible.” was more common. I’m beginning to think that it is important to make it visible and to set a goal, follow up and work on the PDCA cycle. Once that is done, we can then determine how that affects company performance.

So, as a start we have held a discussion session on ESG at MUFG’s board meeting. In addition, there are three ESG indices which Mr. Mizuno introduced and have been very inspiring for us. While MUFG meets two, we fail in one, which encourages us to reconsider our strategy. Therefore, huge institutional investors, such as Blackrock or Mr. Mizuno’s GPIF, have significant impact not only on corporate governance but also these days on firm’s corporate strategy.

Our regulatory authority, Japan’s FSA has also clearly incorporated the concept of “creating shared value” in its administrative policies. I think it’s well-timed and FSA is probably the first financial regulatory body in the world to do so and is in alignment with us.

As Mr. Suzuki said, it has long been discussed if ESG and performance are linked or not, and it is often said that this is a materiality issue. I remember discussing this when a study group was formed for finance and environment when Governor Koike was the Minister of the Environment. While I had doubts about materiality at that time, I think the time is ripe now for Japanese firms to adopt this.

Also, there was a discussion about something unique for Japan. One example may be “Health Management” which many CEOs are currently working on. Keidanren is also doing something similar. This may be a new approach. I believe a new horizon for asset management in Tokyo can be created through the discussion among CEOs or board members about Japanese traditional values, global values,

current issues and solutions.

Atsushi Saito: Yes, thank you. Yes, please.

Yuriko Koike: Thank you for the active, various discussions. I have one question and one item to report. Starting from the report, discussions were raised about a Tokyo Award related to ESG. Currently, with the advices from the Advisory Panel members, we are considering of establishing this award and appeal to the world from Tokyo, and thus from Japan. Through publicizing the potential of Tokyo and of Japan, it may promote the realization of a Global Financial City Tokyo. I hope to be able to coordinate with GPIF as they appear to be thinking along the same lines.

The question – what do you mean by words that don't translate into English? Could you give us examples? You mentioned about stop using Janglish but what are they?

Hironichi Mizuno: Thank you. Yes, there are not too many ESG conferences, even on a global basis. I hope you don't mind my telling a personal story. PRI is holding the Annual General Assembly in Berlin next week. In the past, the assemblies were held in Oslo, Kuala Lumpur, and I believe it says a lot if it were held in Tokyo. In that instance, we could be making ESG efforts but only to find that those involved were all men which may be very embarrassing. GPIF is also in the 30% US European club, and when I say we do WIN of ESG, for the most part non-Japanese women look at me very coldly. They appear to be saying, "what about you?" So, we need to make sure that we deal with the details to show the world that we are actually in it.

For example, what's difficult in Janglish is phrases like "Transition of Delegation Structure in Asset Servicing". Jesper, you know very well? It's very difficult. So, I need to check every time if the translated English words are actually being used overseas.

Also, I hate to say this to TMG and FSA but the expression "fast entry" sounds Janglish. This doesn't mean to make the entry fast. It means to speed up the process. I believe, "fast track" is the correct term. When I was overseas, I would change these words to those that are typically used overseas.

This may sound unimportant but you may use as a translation company to translate and use the so-called English translation but when the non-Japanese look at them, they would misunderstand and think “oh, Japan is doing something different.” Therefore, I believe it is better to use terminology that is used abroad, especially if we are talking about a financial city and not use Janglish.

There are accomplished people from the financial industry here today and I assume there are various opinions but I interpret and explain.

Nobuyuki Hirano: Oh yes, our annual report is quite different between Japanese and English.

Atsushi Saito: Thank you. Mr. Mizuno, thank you very much. Since it's time, let us conclude Mr. Mizuno's session.

Okay. Please. Mr. Taniya? Who is that? Who? Or Who? Please go ahead. All right. Can you hear me? Please go ahead.

Sir Roger Gifford: Sorry. May I go ahead? Chairman, it is quite hard to know when to interrupt and to come in, but I really wanted to give an endorsement to Mr. Mizuno's presentation.

I have to say there is a Green Conference or an ESG Conference happening almost every week at the moment in London. It is a rapidly-growing sector. We had the first conference on green equities this week and I think that the opportunity for Tokyo really is substantial, the opportunity to build and enhance the reputation which it already has in the ESG space but to make something of a model of investment and a model of governance is really an opportunity, which can shine a light for the world.

This is not an easy area to develop but it is rapidly growing, not least thru initiatives related to the task force on climate related financial disclosures, which is encouraging all institutions to measure the value and the carbon content of the stock and the security that they are buying. I am sorry to prolong the discussion on that particular subject, but I would strongly reinforce the opportunity for Tokyo in this particular area around ESG, especially green, where green is effectively a better measurement system,

which is already established, particularly in bonds but coming rapidly into other areas too. Thank you, Mr. Chairman.

Atsushi Saito: Thank you for the very good comment, but unfortunately we have run out of time, so we should discuss further as time left, is it okay?

Sir Roger Gifford: Of course, thank you.

Atsushi Saito: Well, let us move on to the next. Ms. Champion will deliver the next presentation. Ms. Champion, Please. Mr. Mizuno, thank you very much.

Yuriko Koike: Thank you. Please try the pears. I'm circulating the brochure for Tokyo Metropolitan Nogyo (Agriculture) High School, for your reference.

“Our contribution to the Tokyo Metropolitan Government to Revitalize Tokyo’s Financial Sector”

Rosalind Campion, Minister Counsellor,

Economic Affairs, Strategy and Communications, British Embassy Tokyo, Japan

Rosalind Campion: I am delighted to be invited here to share some lessons from the UK with the panel today. It is a great honor. I would like to say thank you to Governor Koike for giving us the chance to participate in this transformative initiative and I hope we can make a useful contribution. I should also apologize for speaking in English, but my Japanese would not do justice to this topic. It would be worse than Janglish.

As you all know, the city of London is the world’s top global financial center. There are a number of reasons for this, but fundamentally, the city of London was developed in a small open economy with a resilient regulatory environment. Financial flows do not only pass through but are invested in and managed in the UK, supported by world class professional services. We believe the similarities between the UK and Japan, both small open economies at the center of global supply chains, mean Tokyo is well placed to join London as a global financial center. We hope that by sharing lessons from the UK, we can help you to realize this vision.

I know Governor Koike and this panel are keen to avoid NATO, No Action Talk Only. I have come prepared with actions, 43 in total. Some of these can be taken forward in the next fiscal year and some we can start tomorrow. I will not have time to cover all of these, but the full package will be on our website, the British Embassy’s website, soon, and of course we will be sending out hard copies.

In today’s presentation, I will set out the spirit of our contribution and highlight the key areas that we have focused on.

The spirit behind our contribution is looking for win-win solutions. You are all well aware of Tokyo’s huge potential at the center of the world’s third largest economy with the vast wealth of domestic savings and a skilled and innovative workforce. You will also know better than me the issues that have prevented Tokyo from growing as a financial center, perhaps, a conservative risk attitude, a lack of new

opportunities for market entrants or a rigid regulatory system. Tokyo needs to find solutions to these issues to benefit Japanese companies in the wider economy, but also to attract foreign companies to bring in new ideas and dynamism. This is what will realize Tokyo's potential to become a truly global financial center.

To support this ambition, we, at the British Embassy, reflecting the views of British business, have come up with recommendations across six fields; alliances in education; promotion of environmental, social, and governance investment; creating a special zone for asset management and FinTech; establishing FinTech centers; developing an incentive scheme for asset management; and creating a new promotional organization. These fields will sound very familiar to you and this is our intention.

What I want to focus on today is how the UK's experience in these areas can support Tokyo's development as a financial center.

Firstly, education is the bedrock of high quality human resources and is key to sustaining a financial center. The quickest route to improving knowledge and experience in financial services is to copy others and we think the UK has got some things that are worth copying.

For Tokyo to thrive as a global financial center over the next decade, we believe we should see a lot more Japanese students applying for internships in the city of London. We could achieve this through creating new partnerships between Tokyo Metropolitan University and London universities. These educational alliances could be supported by student and research exchange programs in collaboration with private financial companies.

We, at the British Embassy, would be very glad to introduce TMG and TMU to potential partners in the UK as a first step.

The next field is ESG. We have talked about this a lot of course. As you know, ESG investment is a growing field where, as Mizuno said, London has taken a leading role and where Tokyo has a clear intention to step up its activity. As a first step, we would like to help TMG set up a dialogue framework

with UK counterparts to share experience on issues like green finance, as Shigeharu mentioned.

A dialogue between London and Tokyo could help us take a leading role in the global financial system in this emerging area, setting the regulations and standards of the future. This could also help in terms of addressing some of the issues you discussed after Mizuno's presentation, including things like evidence gathering. And you talked a little moment ago about launching a Tokyo price for ESG and the importance of having the eyes of the international community upon it. If you wanted involvement from the UK, a panel member from the UK, we would be happy to work with you to help identify a good candidate.

Another area that we are recommending is creating special zones for asset management and FinTech. The basic idea is for Tokyo to set up a special zone where new ideas could be tested before being applied to a wider financial system. This zone could adopt the regulatory conditions of the city of London, including applying English law and language. This would increase Tokyo's competitiveness and create a familiar and a friendly-business environment for Japanese and foreign players. I would like to invite TMG staff to visit London to identify best practice in this field firsthand and to help develop a blueprint for a special zone in Tokyo.

Governor Koike, if you can spare your staff, we could arrange a visit to London this fiscal year to form the Action Plan for 2018. More immediately, the UK Law Society President is visiting Tokyo next week. I said I would have some suggestions to implement tomorrow. The UK Law Society President is visiting Tokyo next week and we would like to arrange a meeting to discuss what implementation or using English law could look like and some of the tricky issues around that.

Every financial center needs a FinTech center and we would like to support TMG's efforts to create a FinTech center that is attractive to both Japanese and foreign companies. The pace of innovation in this area means that we can all learn faster by collaborating and sharing ideas. For this reason, we believe that Tokyo, as FinTech center, cannot just be a physical space. It needs to be an ecosystem that supports interaction and innovation. The UK has a strong track record of creating successful FinTech centers, providing a range of services, including legal advice, technology, cybersecurity and admin support. The

British Embassy would like to offer to fund specialists from the UK to visit Tokyo to share their experience with the panel to help develop Tokyo's FinTech centers.

Another important area is attracting new entrants into asset management market. This is partly about working with the FSA to create a regulatory environment that foreign companies can navigate. We will continue, as we have in the past, to support engagement between the FSA and the UK counterpart to support this process. We also believe that TMG could lead by example and open up assets under TMG's control to smaller private asset managers to stimulate growth and competition. We would be very happy to support TMG staff in a visit to London to help identify what kind of incentive schemes could be most effective.

And our last area of recommendations is around creating effective organizations to promote Tokyo as a financial center. The UK has had success in this area through institutions like the City of London Corporation and The City UK. We would be really happy to foster links with these institutions if Tokyo can decide to create its own promotional bodies and we will, of course, be very happy to convey the message to UK companies that Tokyo is open for business and looking for new partners to support its development as a global financial center.

These are the areas, I think, I wanted to highlight today. As I mentioned, more information is going to be available in our form package, which we will publish soon and share with you. In the meantime, if you have any questions, I would be really happy to discuss them or afterwards speak with you.

We, in the British Embassy and in the UK government, very much look forward to working closely with TMG staff on these proposals and we are ready to take actions on specific proposals with funding in place. We want an action plan packed autumn. We are looking forward to making sure that we are sharing our experiences and strengthening the ties between the financial centers of Tokyo and London. Of course, what could be better after my Prime Minister just visited your country and had such a strong and a productive visit. I am really delighted and grateful to you for giving me this chance to contribute to such an important process for Tokyo to renew itself and creating even more prosperous future for Tokyo, and for Japan. Thank you very much for listening.

Atsushi Saito: Wow! Great! Generous proposal. We appreciate that. We had better invite on this occasion from Sir Roger, you make another additional comment on her presentation?

Sir Roger Gifford: Thank you very much. Thank you very much, Mr. Chairman. I think Rosalind has really, really well encapsulated the number of ideas that we talked about and put them into a very good perspective.

If I was to highlight just a couple of things, I think we are here because we want to promote Tokyo as a financial center and this is a competitive world. In that respect I am reminded of the old phrase that attack is the best form of defense and I think that when we look at the opportunities that we have to promote Tokyo, clearly we have identified asset management, we have identified digital technology, we have identified ESG and green finance. Those are really interesting areas that Tokyo can lead on and be a world global leader in each of these, indeed it already is in many respects.

Sometimes it needs better marketing to the world as these are areas that are obvious for Tokyo to take a lead and I think that of these areas that we talked about, I would strongly support the ESG and green in particular because it is such an extraordinary developing area, not least in the context of the 2-degree climate change requirement or less than 2-degree climate change needs and the extraordinary amount of infrastructure finance that is being required by countries all over the world. That in itself is giving a great drive to the whole issue of how to raise the money for that infrastructure development, which is supporting a much stronger green/ESG investment. I strongly support that as a discussion.

I think that the idea of having an agency to promote Tokyo is a very good one and I support the idea that we would love to host at the very first opportunity back in London to promote Tokyo. IFC will be very, very keen to do that and to give you any ideas that we can about where we have found that the system works very well and where the promotional agency can really score points and where it has to be more and more cautious, if you like, because the world is competitive. But I think it would be any efforts by Tokyo to spread itself through London would be very well received. They were not seen as a close competitor, like Paris or Frankfurt or Luxembourg, but seen as a partner.

I think my last point would just be to say, partnership is key in this. Connectivity relative to partnerships between cities, between different financial services will be key, because that is exactly how it is currently developing say between London and New York, London-Frankfurt, London-Paris. It is very much about collaboration, about working together and about achieving market growth but through a partnership structure rather than a straightforward competition structure.

I should probably stop there, but let me just say how much I endorse again the work and the slide that Rosalind has produced. Thank you.

Atsushi Saito: Thank you very much. Professor Shimada, please go ahead.

Haruo Shimada: Thank you very much Ms. Campion for your wonderful speech. Listening to your speech, I was very much enlightened and encouraged in the sense that how far we can go together by exploiting the partnership between London and Tokyo or any other cities. You covered the education, ESG, Tokyo price, FinTech center, asset management and many other topics. It is really great that we can exploit these opportunities.

I happened to be at the chairperson of the Tokyo Metropolitan University. I was particularly impressed by your suggestion of working together of Tokyo Metropolitan University and London University and I am really tempted to visit you fairly soon to find out your counterparts and discuss about how much we can go by developing a financial study of the two good universities. Thank you very much.

Atsushi Saito: Yes, any others? Please.

Keiichi Aritomo: I have a question on your suggestion to adopt UK law/British law as a governing law for National Strategic Special Zone. My question is around the practicality of doing this. What about the governing jurisdiction? I do not think Tokyo District Court will be able to handle UK law, they are not there yet. But, I like the idea because we have many lawyers, who are familiar with UK law as well as the New York law and Delaware law on a global basis compared to Japan law. It is not which law is

better than the others.

If we have more lawyers, we have a judicial precedents and cases. Therefore, it is more predictable on how to conduct business in Japan. Just like what you have in Dubai, I wonder if you are contemplating to open up a Resolution or Arbitration Center in Tokyo for dispute resolution; otherwise, it is going to be too painful for the contracted parties to make a trip to London to resolve the dispute. What is your suggestion on this?

Rosalind Campion: Thank you. Well, of course, visiting London is never painful, but I think the question that you ask is exactly the right one and I think that it is one that we stand ready to help address. One of the reasons why I mentioned that the President of the Law Society is coming to Tokyo next week is because this is an issue that the Law Society, who are the governing body for all lawyers in the UK, have been thinking about and would be keen to work with you to get through, if this is something you want to do. I do think that an Arbitration Center would be necessary. I do think that there would be an appetite from the UK in setting up something like that, but, of course, it would need to be something that you wanted, so perhaps, this is something that we can help try and facilitate and see if we can make it happen.

Atsushi Saito: Okay, thank you. Yes, Suzuki-san please.

Shigeharu Suzuki: Japan Securities Dealers Association (JSDA) will be holding together with International Capital Market Association (ICMA), a seminar on Green Bond on November 2nd. We've requested Governor Koike to make a speech at the seminar. She kindly accepted it and we're very glad. The purpose of this seminar is to increase the awareness of development in the green and social bonds and to increase communication among bond market players in Asia, including Japan. The ICMA has chosen Tokyo to be the first venue in Asia for the seminar. I believe this seminar will be linked to the green finance dialog Ms. Campion just mentioned earlier between the UK and Japan.

Therefore, we would appreciate it if TMG and all those involved cooperate with our efforts to do this seminar.

Atsushi Saito: That's good. Gifford-san was also mentioning about green. Are there any others?
Mr. Yamaoka?

Hiromi Yamaoka: Thank you very much, Rosalind, for your excellent presentation. Thank you very much, also, Sir Roger Gifford for your generosity.

Actually, I think you are in a good position to evaluate the Japanese financial services, since you are in a position to gather a bunch of opinions from the UK companies about the Japanese financial services. So, I would like to ask your frank views on the Japanese financial services. What are the major opinions of the UK companies regarding Japanese financial service and financial transactions?

Rosalind Campion: That is a very big question.

As we did this work, we talked to British businesses about what was stopping them from doing more business in Japan and the kind of things that would make it easier for them to do more business. Some of those are in the presentation and recommendations and things like seeing English law came from them.

I think the overriding message that I had from British business was that they will go and do business wherever they can make money and if Japan makes it easy for them to make money, then they would be flocking here.

This is part of the reason why we made our suggestion about seeing if you could make it easier for asset managers to come into Tokyo and perhaps TMG could look at making more funds available because if Tokyo becomes the place where asset managers think this is where we can really make our name then I think that will make a big difference.

I think that there is perhaps a sense that it can be a difficult environment but I think lots of the work that has been happening already to look at trying to explain it to British business would be helpful.

I think fundamentally lots of the ingredients that will make Japan an attractive place are there. We just need to push it a bit more and make sure that this produces some action.

Atsushi Saito: Thank you very much. Anybody, please? May I... Yes, please. Mr. Kariyazono.

Soichi Kariyazono: Of the six recommendations you made, I was happy to hear that 3 of them had to do with technology, FinTech, especially the first point on education alliances, the third point on special zones for FinTech and the fourth point, creation of a FinTech center.

What I would like to request that these 3 should work in tandem. For example, for the first point, the historical development of finance differs between the UK and Japan and the clients are facing differing circumstances so these need to be considered when putting together research or policies related to the special zone. As for the FinTech center, the services of gathering venture companies need to be considered for, developong and operating appropriately and effectively. Thus, I request that these 3 recommendations be worked together with good coordination.

Atsushi Saito: Yes. May I raise one very undiplomatic question? So...

I'm saying something sensitive so speaking in Japanese for the professional interpreters to translate. We're talking about Tokyo and London, or the UK and Japan, creating a financial center together. It sounds very nice but to be honest, aren't we also in competition?

I say this from real life experience. The London Stock Exchange and Tokyo Stock Exchange have entered into an agreement to create a Stock Exchange together. However, we ended up competing for Asian markets. Xavier in London and I had a perfect understanding of each other but the staff members didn't. The London Stock Exchange staff said, "Why are we doing things for Tokyo for them to get business?" and the Tokyo Stock Exchange staff said, "We can cooperate with London, but they would never give up Singapore or Hong Kong". This is reality. I'm sorry for being too real. The Mayor and the Governor can shake hands to cooperate but we need to look into reality and understand what takes place in a fierce business environment. We can use diplomatic and comfortable language

but this would probably not get us anywhere, so we need to be very constructive.

At your expense, they would like to go to London. This also needs to be done friendly. Apologies, I'm probably saying unnecessary things. We have another 7-8 minutes but Mr. Hirano, do you have anything?

Nobuyuki Hirano: Yes. What Mr. Saito has just mentioned is important for Tokyo when it develops alliance strategy. Although alliances usually start friendly and work productively in the beginning, the momentum can be lost during the follow up or growing phases.

In order to avoid such a situation, I think it would be important to share a common vision from day 1, set a common goal and clarify the model and roles. We need to look at each component in the beginning so as to mitigate the risks that Mr. Saito just mentioned.

On the other hand, I found Ms. Campion's presentation was very interesting. As I have mentioned previously, the attractiveness of London does not come from the size of the UK economy but from its capability to develop attractiveness as a market. I often think that the nature in Switzerland does not exist by itself. It's something like that for London.

The elements, such as the legal framework, accounting, regulations, living conditions, and urban infrastructure, are all made artificially to develop finance sector in London. If Tokyo is really becoming a global financial city, it has a significant amount to learn from London, especially its wisdom accumulated through the past experiences, such as how to develop an industry by combining multiple elements.

With Brexit, we are losing our "Euro Passport" license to operate in Europe and are considering setting up a base somewhere in mainland Europe. The 4 cities mentioned earlier, i.e. Paris, Frankfurt, Dublin and Amsterdam are in competition.

Interestingly, however, among my CEO friends, the majority would like to maintain the base in London.

If we have 5,000 staff for example, we might transfer 500 of them to the mainland but keep the rest, 4,500 in London. That demonstrates how attractive London is. I think as we have much to learn from London, having an alliance with the city is good in various ways.

Especially, for London, while honoring its tradition and wisdom from it, doing something new, such as FinTech Level 39 or green bonds, are extremely forward looking. The attitude is again what we should learn. Also, there is much to learn about education, so I am very positive about the alliance.

And, one last point. This is about what Sir Roger has said on infrastructure finance. Demand for infrastructure finance in Asia is huge. However, no global market has yet provided the solution to accommodate the demand, while the Japanese banks may be the largest players. I have been considering how Tokyo market can play the leading role for this and I just thought it may be a good idea to add infrastructure finance to our initiatives

Atsushi Saito: Thank you. That was very constructive. Ms. Kawamoto, can you give this to Ms. Kawamoto?

Yuko Kawamoto: Rosalind, thank you very much for your joining this panel, where female members are only Governor Koike and me and it is quite nice to have you.

My question is on London and Tokyo's alliance. Is there any actual example that London cooperates with other countries, other towns or cities, except especially in the Commonwealth Countries?

Sir Roger Gifford: I could add to that, if that is helpful.

Atsushi Saito: Pardon?

Rosalind Campion: Sir Roger.

Sir Roger Gifford: May I comment on that last question, Chairman?

There are many initiatives that London has now initiated with other cities. I am very conscious of the comment that was made earlier about the collaboration, which existed between Tokyo Stock Exchange (TSE) and London Stock Exchange (LSE) before. I think that merits some further analysis as to why that was of more benefit, clearly of more benefit to London than it was to Tokyo at the time. I think we should analyze that a little more closely because we feel there were opportunities, which were not taken as strongly as they might have been at that time.

But leaving that aside, the idea of collaboration between cities is one that is developed strongly, not only with Singapore and Hong Kong and New York but particularly with Paris and with Frankfurt and with Dublin, where there is an interdependency of activity. So for instance Luxembourg is an important center for London in terms of fund registration. Dublin is an important center for London in terms of loan asset booking, as is Malta, and in terms of the derivatives exchanges, Frankfurt has become an important partner for London, much of the derivatives business, which is eventually cleared in London, is also handled in Frankfurt.

The idea that one center on its own is going to dominate in any particular industry is no longer valid. It is much more, from our perspective, about finding ways to interact. The great goal with Tokyo would be to see volume capital flows both ways, not just in terms of capital coming to London, but also capital flowing the other way into opportunities, which can be sourced from Tokyo. That must be a clear goal of any market alliance or any idea that we have to develop joint discussions, it must be on a mutual basis. I think we fully recognize that because no partnership can exist on the basis of only one side benefitting. Thank you.

Atsushi Saito: Okay, thank you very much. We could understand that. You may add up any other answer on that?

Rosalind Campion: Thank you. No. Sir Roger put it better than I could. I was actually wanting to come back to your point as well. We very much see this is less about competition and more about

partnership. Apart from anything else, the diplomats are very much not in the business of causing problems. That is the last thing that we do. But Sir Roger put it much more nicely than I could have done.

Atsushi Saito: Well, very friendly, you know, very close, constructive relationship. Okay. Thank you very much. Yes, please.

Yuriko Koike: Rosalind, thank you. It was an excellent presentation. Also, Mr. Hirano mentioned about the conference on combining finance and environment which I held at Keidanren Hall as the Minister of the Environment inviting Mr. Yosano, but the venue was silent, and the subject was not well received, ten years ago.

Also, about the green bond. For the first time this autumn, TMG will be issuing a 20 billion Yen green bond and I am hoping that it will be sold out. I count on everyone's cooperation.

As for the Green Bond in Tokyo, we've requested ICMA to check if it is utilized correctly and we've passed. With Tokyo issuing this green bond, I hope this leads to innovation in green infrastructure technology. And, since it is the local government that actually builds the infrastructure, this should become a good precedent for local governments issuing green bonds. I am happy to attend the seminar.

And my real point begins here. I have also addressed my concerns in international conferences on climate change but I have always felt that the UK is extremely good at developing a global strategy due to its historic tradition and achievement of dominating the seven seas.

As for climate change, Vice President Gore of the U.S. has also been passionate but when we think about global network, the UK acts strategically. For example, the UK has sent Mr. Nicolas Stern as a Vice President of the World Bank, to analyze and quantify the losses caused globally if business were to continue as usual and the risk reduced if it were to be managed properly. Then, BBC widely broadcasts this, followed by Royal activities on climate changes. The Japanese Imperial family also

places significant efforts in water for example, by the Crown prince. As for the UK, it develops a global strategy once a clear vision is developed and each party plays its role and creates business accordingly.

Let's take for example ICMA that rates green bonds. This itself is a business. ISO is also a business setting a de facto standard. There are many resources in Japan that would allow them to become a global leader, and the government strategic efforts are necessary. For example, with the Paralympic Games coming soon, I would like to make everything barrier-free. Tokyo can set a standard for "barrier free". Then, that may lead to Financial Award of ESG. The TMG should learn strategically from the UK and start from whatever TMG can do in a comprehensive manner. I would like to learn more from the UK and Sir Roger especially when setting standards and would like to request for your cooperation. Thank you.

Atsushi Saito: Yes, thank you. You may have more opinions but our time is up. Ms. Champion thank you very much. Our Governor has just made a commitment. Please collaborate with us. Thank you.

Now, let's go onto Mr. Aritomo's presentation – it's about EMP.

“Introduction of EMP for Global Financial City Tokyo – Major Considerations”

Keiichi Aritomo, Representative Director

The Consortium for Japan International Asset Management Center Promotion

Keiichi Aritomo: I will be speaking about EMP. I am Aritomo of JIAM.

This is the second time that we’re talking about EMP at the Advisory Panel. I’d like to do a recap of our previous discussions and then dive deeper. As you are aware, EMP is already in the Policy Report compiled by the TMG’s office of the Governor for Policy Planning in June.

In the third meeting of the Advisory Panel, Mr. Iwama, the Chairman of the Japan Investment Advisers Association at that time, gave us a presentation on CalPERS as a case study in the U.S. There may have been a misunderstanding here leading many to believe that if CalPERS can do it, Tokyo should be able to do it too. CalPERS has the infrastructure to function as an asset owner as well as a professional CIO with performance based remuneration. If performance is poor, there will be termination. Tokyo does not have this. Having large funds and being an asset owner is different and cannot be replicated overnight.

We have conducted searches globally to look for good examples of EMP for Tokyo. Paris’ EUROPLACE was a good case. We’ve heard that the UK will support us but we tend to overlook what’s happening in non-English speaking countries.

What we need to discuss is what Tokyo’s objectives for an EMP are. Also, what is an emerging manager? What should the Tokyo version’s emerging manager be like? What scheme should it run under and what is TMG’s role in this?

Before that, let’s look at emerging manager program schemes in other countries. They include Temasek’s case in conjunction with Dymon Asia, and at the very right you will see U.S.’s CalPERS, CalSTRS and New York State Common Retirement Fund. These are often discussed and the public nature, i.e. government involvement, is high especially for Singapore as it is a sovereign wealth fund,

run much like a family office by Lee Kuan Yew.

On the other hand, while there is much misunderstanding, there is very little government involvement as asset owners are quite independent already in the U.S. Among many, I believe a moderate degree of government involvement can be found in France, by EMERGENCE conducted by Paris EUROPLACE.

As Mr. Kariyazono presented previously, since Emanuel Macron became president, Paris is trying to take over leadership position as FinTech hub of Europe. There is strong momentum for this.

I recall that Station F gathers some 3,000 start-up companies. Paris EUROPLACE, has been previously discussed when I presented the need for a promotional organization and Finance Innovation is the organization promoting FinTech. The last of the four dimensions is EMERGENCE, the organization promoting EMP. Regulatory network is the unit lobbying to unify the Eurozone regulatory environment. Lastly, there is the Research Network which closely resembles to what we are trying to achieve, i.e. how to advance finance academically. Financial Award and nurturing highly skilled financial talent initiatives are also driven by Paris Europlace. There is a lot to learn from both Paris and London.

So, among them, EMERGENCE the EMP as a structure is composed of a board consisting of institutional investors and 15 asset owners. The board decides on asset allocation and strictly ensures to minimize conflict of interest. The Honorary Chairman of France's asset management association, Association Française de la Gestion Financière, acts as Chairman and referee.

This is followed by its Gatekeeper or Seeding Platform, specializing in EMP named NewAlpha, a Manager of Managers Fund, has been selected. Under them are the contracted umbrella fund, SICAV and emerging managers are selected.

15 companies may be too many where "too many cooks spoil the broth" and operation is not easy but assets under management is 450 million Euros or approximately 70~80 billion Yen earning a total return of about 9.4%. Total AuM have grown to double. Of the 11~12 companies (EMPs), 9 are

steadily growing.

Typical success rate for emerging managers is around 30% so they have been doing quite well.

For Tokyo's EMP, the objective is to realize an investment value chain. In Japan, currently there are several layers between the investors and portfolio managers. As a result, returns are not delivered to the investors. By linking investors and portfolio managers, costs may be reduced and portfolio management talent can be rediscovered and attracted, including Japanese ones since many have left but still trading Japanese equities from overseas. New growth opportunities can be provided by developing apprenticeship programs to nurture talent.

They can not only invest in growth opportunities but also as Mr. Mizuno has shared us, make socially meaningful investments, resulting in returns for investors. This allows for all to share social values and this is the objective of EMP.

Having said that, if we overemphasize social values, emerging managers' sustainability may become in question and we also need to simultaneously consider economics. It's especially important to know what the individual's track record is. Also, for asset owners, would the investment be optimal or is the investment strategy consistent need to be considered. Is the emerging manager really betting his/her life on this? Even for salaried workers, one needs to ask, "can I really invest my own funds, liquid assets that I have worked for hard in this?" "Even for a professional fund manager, have they tried hard enough for capital raising?"

This may not be sufficient to justify Tokyo's involvement so by promoting start-ups that may lead to Tokyo based economic growth need to be considered.

Several measures have been addressed in the Interim Report released in June and some have been already presented as specific actions. For example, holding a seminar to increase awareness of EMP to institutional investors/asset owners, matching events between asset owners and emerging managers. In addition, working closely with the FSA to ensure a fast track/entry.

Furthermore, creating an infrastructure to allow quick plug-in access to middle office operations so business can begin immediately would be helpful where TMG provides economic support. These are already referred to in the Interim Report.

Beyond here is about how to increase the awareness and learning of institutional investors. While many support the idea broadly, many still say “well, for us, it’s a bit premature”. Further discussions are necessary.

The number of institutional investors is also important and should not be too many as it becomes difficult to prioritize whose total portfolio is being optimized and to coordinate among asset owners.

As for governance structure, TMG should be involved. Expert knowledge is required but since conflict of interest also needs to be managed, this requires further discussion and decisions.

The critical issue is the selection of the Seeding Platform, which will be in turn selecting the emerging managers. If this is not done well, the entire system will not work so it becomes critical in deciding how to objectively make the assessment. How many companies should be selected for the Seeding Platform? What criteria should be used to select emerging managers? As former Chairman Iwama of Japan Investment Advisor Association mentioned previously in his presentation about the transition manager concept, clarity is required as to its scope. The scope of asset classes for investment also need to be defined.

There are many issues that still require discussion but by introducing EMP, like the example of apes evolving into environment-friendly cyclists, Tokyo, as a financial city can advance toward an environmental friendly, smart city.

Atsushi Saito: Yes. Thank you. TMG’s notes tell me we need to finish at 4:55pm. We only have five more minutes but let’s be active for another 5 minutes. Yes, please.

Nobuo Sayama: In our EMP discussions, much weight has been given to developing talent. We can nurture talent but if they leave Japan, then our efforts will be in vain. Thus, we need to ensure attractiveness for those developed, or those who are already talented.

Atsushi Saito: Yes, thank you. Mr. Taniya, please.

Mamoru Taniya: I'm recalling when I used to be a fund manager in the past. I really support the view that it is good to select someone who represents a Fund of Funds. We should not directly be investing in fund managers but would go through a Fund of Funds. We need not restrict ourselves to one company, and can expand the selection to 4 thru 5.

And when selecting Fund of Funds, similar to systems where governments support venture investments, it would be good to match people that we have gathered like the Organization for Small & Medium Enterprises and Regional Innovation, Japan is doing. In the end, I have witnessed that in order for this to work, a market based mechanism of selection system is necessary.

Atsushi Saito: Yes, thank you.

Mamoru Taniya: It's not easy to provide funds to those who cannot raise them. Thus, it is important that we choose active (not retired) Fund of Funds. Markets have popular fashion and trends. In the past for example, if it were a hedge fund, long biased long short styles were popular but this is no longer the case. Market neutral is more of the norm and infrastructure fund is extremely popular. Private equity and infrastructure have only become popular recently. Before that, highly liquid hedge funds were popular. Since markets are dynamic, we should select someone who is up-to-date with market developments.

Atsushi Saito: Yes, thank you. Jesper.

Jesper Koll: A short comment - so emerging managers should create an entrepreneurial platform for Japan's future financial industry. They should not be major financial institutions but someone who is

willing to leave Mitsubishi and start up a company. So, this is the objective.

I greatly support this but there's one thing – this is a very, very competitive market. We are holding these discussions in Tokyo today but the same discussions are also being held without doubt in Hong Kong, Singapore and in Berlin, Germany, my country. Interestingly, everyone in Japan wants to do it right and is very serious but I think you are being too analytical. Excuse me for saying this. For people abroad, the starting point would be, here we have funds of 1 trillion Yen. So, we will create a platform. Mr. Mizuno of GPIF has taken a huge risk. ESG, we all talk about ESG, but how do you start it? How to get it going, and how can we make it unique to Japan and only from Japan. So, with the 1 trillion Yen, this would be an enormous competition. Is the GPIF supported index the most efficient EGS index? New creators will enter. Mr. Mizuno, however is not afraid. We want competition. Thus, we have no more time. We should start building a platform immediately. If not, I'll create it in Berlin. It is quite embarrassing.

Atsushi Saito: I'm very sorry but let's have some words from the Governor.

Yuriko Koike: No, no. Please to Mr. Hirano.

Atsushi Saito: We were supposed to hear from Mr. Hirano originally. Mr. Hirano, please go ahead. Let's reduce the Governor's time.

Nobuyuki Hirano: Thank you. Please take a look at P. 32, since we do not have enough time I may not go into details.

Last time, I spoke about how I understand this project but I still had some more comments, so I have prepared this paper. In a nutshell, the paper shows at the very left TMG's current initiatives, at the center what can be achieved from them and at right hand side how they are likely to grow in the future.

Within that framework, we show how JBA and individual financial institution, i.e. MUFG can contribute by putting JBA logo and MUFG logo, respectively. In short, we are interested in contributing

to these initiatives.

One point I would like to mention is that while this can be done prominently, this project takes time and speed is important, given competition is very fierce, especially for FinTech. If we are really thinking of developing asset managers in Tokyo, it is going to take much longer than 2 to 3 years. As we have tried several times in the past but failed, we need to clarify what we are aiming for and produce a roadmap with timelines, and follow up in a PDCA cycle so that we can show good results this time.

Lastly, I believe thinking like “Grow Larger at Birth Small”, meaning “first begin small and then grow big”, is important. While I look to Governor Koike’s leadership, I also expect TMG to be fully committed to this project and spare sufficient time to follow through on this.

Atsushi Saito: Thank you for the wonderful discussion. Lastly, I would like to hand over to the Governor.

4 Closing

Yuriko Koike: Thank you very much once again, for your very active and very detailed discussions today. We've also received very specific discussions and proposals from each expert's perspective. As Mr. Saito said, it is about win or lose competition and I've clearly understood the reality. It's been about who gets more share of the pie globally all along. I think this means that we need to set forth a clear vision with ways to make it happen going forward.

I think we have so much assets and not putting them to work is a waste. We also have a great talent that is not being fully utilized. We have to be sure not to lose in business, in spite of having world-class technology. So, in order to avoid losing in business, I would like to make a step-by-step, yet drastic progress using assets, people, funds, history that we have accumulated. Thank you for your participation.

Atsushi Saito: Thank you. Apologies for those who were not able to speak today as I wasn't very good at that. Let's try again next time. Thank you very much.

(End of the minutes)