

Meeting of top executives of foreign financial institutions  
for the goal of realizing Global Financial City Tokyo

Date: June 22, 2017

Venue: Tokyo Metropolitan Government 7<sup>th</sup> floor of Building No.1

## **1 Opening**

### **Takahiro Matsushita**

Ladies and gentlemen, we would like to begin the meeting of top executives of foreign financial institutions for the goal of realizing Global Financial City Tokyo. Thank you very much for coming here out of your busy schedule. My name is Takahiro Matsushita. I will be the MC today. Regarding the program and materials, they are in the tablets in front of you. Regarding the participants' list and seating chart, those are in the tablets, if you please refer to those at your leisure, and the materials, the pages will be flipped to match the presentations. They will move automatically. And Vice Governor of Tokyo, Mr. Ando is absent today.

So, to open up the proceedings, our governor, Yuriko Koike, would like to say a few words of greetings.

## **2 Address by the Governor of Tokyo**

### **Yuriko Koike**

Forgive me. I will speak in Japanese. Good morning everyone. I am Yuriko Koike, Governor of Tokyo. Thank you for taking time out of your busy schedule to be with us today. We held the meetings of the Advisory Panel for Global Financial City Tokyo with the aim to once again revitalize Tokyo through finance. I would like to thank all of you, active players of finance, for accepting our invitation and coming today.

The world is in the midst of great change. And, there has not been a break in this rapid change. A new administration has been born in the United States. In the UK, there is Brexit, along with the results of their recent general election. And, in France, Emmanuel Macron has emerged as the new president, with his new party making great strides. Moreover, President Macron is an expert in finance. With all of these developments, we are about to see major change in Europe and America. Of course, the same rings true for Asia. In Tokyo's case, however, I believe we can actually seize upon this as an opportunity to make the city one that attracts talent and funds from all over the world.

Revitalization of the finance sector is at the very heart and core of Tokyo's growth strategy. Although this issue dates back quite a while, this is, in a sense, Tokyo's last chance. And, positioning the issue as such, I hope to tackle the challenges that remain.

On June 9, we released the Interim Report on Policy for Global Financial City Tokyo. This report was formulated in line with such concepts. We will now advance specific examination of the items contained in the report with the aim to realize those goals. As early as fall, we plan to draw up and release the final report, which could also be referred to as the "Tokyo Financial Big Bang."

To realize the global financial city concept, we want to hear the opinions of actual players in the finance sector such as everyone gathered here today. That is the purpose of this meeting. And, we hope to get your views on topics including how you think we can make it easier and

more enjoyable to do business in Tokyo. Making preparations for a more business-friendly environment as our goal, the Tokyo Metropolitan Government will also work hard to achieve this. We look forward to receiving a wide range of opinions from you on the interim report, which we will refer to when compiling the final report in the fall. Your continued support will be greatly appreciated. Thank you.

### **3 Report: Interim Report on Policy for Global Financial City Tokyo**

#### **Takahiro Matsushita**

So, before we go into the exchange of opinions on June 9th regarding the interim report, we would like to give you an explanation from the secretariat.

#### **Takahiro Tajiri**

Now, I would like to start my presentation. The interim report on the policy dated June 9th shows the direction of the measures, which will be undertaken by the Tokyo Metropolitan Government going forward based on the interim review presented in May by the advisory panel for the Global Financial City Tokyo.

In the interim report, as Tokyo's vision for Global Financial City, four visions are presented, namely to 'Serve as Asia's financial hub', 'Concentration of talent, funds, information and technology', 'Focus on asset management and FinTech firms', 'Contribution to solving social issues'. Specific measures are summarized under three pillars, which are specific actions.

Specific measure #1 is creating an attractive business and living environment. TMG will consider reducing two metropolitan taxes on corporations in the financial sector and requests the national government to work on corporate tax cut, and also TMG will collaborate with FSA (Financial Service Agency) for the realization of fast-entry system to facilitate smooth procedure for registration and filing for license for financial business. TMG will also promote improvement of living environment.

Specific measure #2 is nurturing players for participation in the Tokyo market, collaboration between public and private sectors for overseas promotion will be sought and TMG will cope with nurturing of FinTech businesses and cultivate asset managers through promotional programs for concentration of entrepreneurs, investors, research institute and form a FinTech ecosystem or Tokyo version of FinTech center.

Specific measure #3 is contributing to the solutions to social issue by financial services. To ensure fulfillment of fiduciary duty, TMG will promote the use of green bond and establish Tokyo Financial Award that will be conducive to ESG investment considering environment, society, and governance.

Timeline going forward will be that TMG will make reference to the views expressed today at the meeting and other discussion by the advisory board to work on the details of the interim report on the policy and compile the final report in fall on the “Tokyo Financial Big Bang” and make announcement. This encloses my explanation from the secretariat.

**Takahiro Matsushita**

Next, the Chair of the advisory panel for Global Financial City Tokyo, Mr. Saito would like to say a few words.

**Atsushi Saito**

Yes. I will keep it very short, we don't have much time. I serve as the Chair for the advisory panel. My name is Saito. And the voice of the players today, the governor herself wishes to hear directly from you. This is very important, so from all of you, please give us your frank opinions, and as the representative of the industry, banks, security companies, and others, so we have had five meetings so far, and she has been present. So, we have had voices from the industry already, but in the future, earlier on as you heard, the interim report has been issued and targeting November, we want to come up with a final report. So, from foreign financial institutions, we would like to hear from you live. That's why we have asked you to be here today. Thank you very much.

## **4 Discussion**

### **Takahiro Matsushita**

So, we would like to go into the exchange of opinions. We have until 10:25, that's 45 minutes.

So, if you have an opinion, please raise your hand. Mr. Kindred...

### **Jonathan B. Kindred**

Thank you. Jonathan Kindred from Morgan Stanley. I want to congratulate the TMG on the Global Financial City initiative and commend the governor for her strong leadership in this regard. I've been honored to participate on the advisory panel as representative of the International Bankers Association of Japan, and I'm quite supportive of the many measures that are outlined in the TMG's interim report.

However, I think that as TMG further develops the policy agenda for the Global Financial City, we should look to an even more bolder utilization of Tokyo Special Economic Zone status to implement structural reforms which have been difficult to implement on a national level, and in particular, I would point to the labor market reforms which have been suggested as key elements of the third arrow of Abenomics, which have yet to be implemented. I would respectfully submit that the national government's Work Style Reform Council has recently put forward proposals which are very disappointing. In fact, I think that these proposals are more likely to lead to decreases in productivity and less labor market flexibility, precisely the opposite of what the broader economy and financial services in particular actually need.

I would suggest two specific additional policy measures which the TMG could think about as part of the Global Financial City initiative in order to further stimulate financial services growth.

The first would be an allowance for a legalized framework for severance, which would effectively mitigate reinstatement risk for employers. In particular, this measure would raise the demand for labor curve by helping to facilitate more startup and expansionary hiring. In addition, this measure could help to alleviate the social divide which exists between regular

and non-regular workers by enabling a new and more flexible type of labor contract which is beneficial to both employees and employers.

The second element would be an allowance for a carefully crafted white-collar exemption which would recognize the structural characteristics of professional work in a dynamic 24x7 global financial services market. The carefully crafted exemption would also encourage corporate cultures which better and more effectively create a desirable work-life balance in today's modern world. This white-collar exemption would be something that has been discussed since the beginning of the Abenomics agenda but which is yet to come forward, and I think for financial services in Tokyo, it would be a tremendous positive thing. The administrative burdens, costs, and risks associated with managing professionals based on hours worked as opposed to performance output are extremely high.

They will likely get higher based upon the proposals of the national government's Work Style Reform Council, and importantly, I think that they are counterproductive to the global financial center objectives and aspiration of TMG. So, I would encourage TMG to think about measures in this area, and I look forward to further work of the advisory panel. Thank you.

**Takahiro Matsushita**

We would like to discuss later after listening to you, so Mr. Arita please.

**Hiroyuki Arita**

I am Arita from BlackRock. We have just heard critical comments about Japanese employment environment. I also have 2-3 things that I would like to comment on that topic.

The first issue is working environment for women. I feel that hiring mid-career women in Japan is very difficult. The ratio of female managers is only 13% in Japan, while 43% in US and 34% in Singapore. The biggest driver for this is that Japan has insufficient childcare infrastructure. As of last summer, TMG had more than 8,400 children waiting for a spot for daycare. This is a top priority for TMG and we are hoping that the governor will resolve the

issue with her strong leadership. In addition, as it is been touched upon in the interim report, we would like TMG to leverage Special Economic Zone to enable Japanese working women to hire foreign housekeepers.

One of the obstacles in inviting diverse foreign workers is approval of same-sex marriages. This is an issue that TMG and the Japanese government should work together. Within the scope of TMG service, we hope that same-sex couple should be treated in the same way as opposite-sex couples. In Hong Kong, Singapore, these kinds of equality moves have not yet been realized. So this can be one of the strength that Tokyo could have that no other Asian cities have, and this would encourage high skilled workers to come to Tokyo.

And lastly, regarding employment, increasing mobility of full-time employees is critical. I understand that the Ministry of Health, Labor and Welfare is already discussing about financial resolution of employee dismissal, but we would like TMG to consider leveraging Special Economic Zone to speed up the process.

I would like to comment on the promotion of “living close to work” in the interim report. There are several things that we would like TMG to consider in addition to what is already mentioned in the report. If we were to leverage Special Economic Zones, we would like TMG to build an “only one” city in the world. We need initiatives to keep ourselves ahead of the other cities. For example, big problem or for local and expat people in Tokyo is traffic jams and air pollution. In order to resolve these, I recommend initiatives such as changing all cars to electric cars, and changing all public forms of transportation including taxis and buses to autonomous driving. Or, initiatives create “connected city (network connected city)” through enforcing all public institutions to provide Wi-Fi for free. Or, initiatives to enable multi-currency settlement including Japanese yen, dollars, yuan, Bitcoin. These initiatives will not just attract people to Tokyo, but also support the growth of venture companies.

And lastly, regarding the capital market, I would like to reemphasize the importance of the bond market. The outstanding value of Japan’s corporate bond issuance is only about 6% of

the US in 2014, due to Japanese business environment such as the strong presence of the banks. Therefore, we need more depth in the market. I understand that there are various initiatives on this topic including that of the Japan Securities Dealers Association. TMG has also helped foreign entities to issue a bond at Tokyo Pro-Bond market. By activating the bond market, I believe we can accelerate the trend of deposit to investment, and also revitalize the capital market. That's all from me.

**Takahiro Matsushita**

Thank you very much. Mr. Takahashi.

**Hideyuki Takahashi**

My name is Takahashi of State Street. Thank you very much for this opportunity. I have two comments.

One is a Middle and Back Office service platform which is important to nurture Asset Managers to come to Japan. We are a specialized bank to provide such kind of infrastructure and platform to Asset Managers. In Japan, Japan Investment Trust Association (JITA) is in charge of funds accounting rules. These rules are only available in Japanese which means it is very difficult for non-Japanese service provider to come to Japan and to provide good and competitively priced platform because of language barrier. They have to translate it into English for business analysis which costs time and money. We should be more friendly to new comers to Tokyo as, if all rules are also available in English, I am sure that there will be more platform providers who are already globally competitive.

Second is human resource. We have kept hiring talents in Japan and our problem is to hire young good talents. The reason why we are having difficulties is lack of English communication skill and financial literacy among young Japanese. When foreign asset management companies come to Tokyo, if they can't hire local Japanese talents, there is a limitation of business expansion in Tokyo. If foreign companies just bring talents from their home countries as expatriates and small number of hiring in Tokyo, Tokyo is not recognized

as an international financial center. We need a pool of good talents. Tokyo Metropolitan University is a very good university but in addition to it, we may need a joint venture university with foreign universities in Tokyo which can provide undergraduate and post graduate financial course in English. Half of students can be non-Japanese and they may be also a good pool of talents to be hired in Tokyo.

Education in English for young children of non-Japanese employees is also serious issue. To give their children English education, they can send them to International schools which are actually very expensive. It cost easily a few to several million yen and is not affordable if they are not expatriates subsidized by their home office and or very highly paid in Tokyo. Foreign employees those who are hired locally in Tokyo and paid as same level as local Japanese, it is too expensive and they may have to move to other countries to give their children education in English with reasonable cost. If some of public schools in Tokyo can provide education in English with reasonable cost, I am sure that it will help them to stay longer in Japan.

**Takahiro Matsushita**

Thank you, Mr. Koizumi, please.

**Tetsuya Koizumi**

Yes. Thank you. I am Koizumi from FIL. There are two things I have noticed.

The first is as we have already heard English education needs to be better. This month in London – I'm going to London and a colleague in London, I asked him why, what's lacking in Tokyo as a Global Financial City, and he said, "Everyone says English, even though I say English, in Tokyo, it's true that it's fun to come here on a business trip. It's a good place to live, but using English to work, using English to discuss, using English to express how you feel or think." I am in the financial sector, but actually it's not just financial knowledge, there is human resources department, there is a systems department in our company, there is an operations department, so even though we say financial human resources, across the variety of

areas, people who can speak English, such human resources are needed, not just people with financial knowledge.

We just talked about how education should be in Japan, and I feel that from around junior high school, sometimes there are some Tokyo metropolitan schools where the junior high schools and high schools are together, so maybe you should teach in English. Once you come into the school gates, you only use English, have model schools that do that, and as Tokyo send out the message and do it properly. That is my suggestion. That's the first point.

The second point is, there are a variety of proposals and the word 'FinTech' appears a lot. We started our business in Boston. We have a big base there, and Boston has a lot of financial asset managers, and this is related to education, but human resources supply. There are lots of universities that supply human resources, so Harvard and MIT, we do a lot of things with them, and MIT Media Lab, there is an institution called that, and digital technology is used in communication regarding this. Companies become sponsors and the MIT Media Lab does the research. So, maybe we could have a FinTech Lab, something similar to that here so that financial technology can be researched at labs, so companies would be sponsors for the research properly. Creating something like this would be very important I think.

In that respect, people who can use English in work, we need to have a broad diverse range of people who can do that because to do business here, we need a lot of such human resources, so if Tokyo could please do this. That's all. Thank you.

**Takahiro Matsushita**

Thank you very much. Mr. Kashiwagi.

**Shigesuke Kashiwagi**

My name is Kashiwagi of Schroder Investment Management. Thank you very much for giving us this opportunity. I understand from the presentation of the Global Financial City Tokyo initiative that the panel focused on asset management business, and I very much

welcome that. We believe that this business is an expanding business, and as a matter of fact, our assets under management has grown significantly post Lehman shock. We predict that this is a continuing trend and our headquarters in London is intending to invest more in Tokyo and we are receiving instructions from London for Tokyo to hire more people.

In terms of utilization of human resources, I believe that asset management business is female worker friendly environment. I come from a securities firm background where quick actions may be required when markets change, and in a short period of time. In asset management, although markets do move in short terms, it is a business where long term perspective is required, and I believe that this nature of the business offer a work environment which is more comfortable for female workers including working mothers. Our female workers account for approximately 50% and approximately 30% of the managers are female, and this is the case without any affirmative policies. But there are cases where female workers have difficulties returning to work after maternity leave, for example, we recently experienced a delay of 4 months for a very talented female employee to return to work after taking a maternity leave for her second child due to not being able to find a nursery and as Mr. Arita just alluded to creating an environment that is easier to raise children has to be done at the same time in parallel as growing the asset management business.

I also note that in the recommendation, review of the inheritance tax was mentioned, and I commend the courage that TMG mentioned this as one of the items and I think this is a welcoming thing. I have many international friends and I understand that their major concern living in Japan is not so much the lack of international schools or regarding medical treatment, but rather the inheritance tax. I am not aware of any other countries other than Japan where inheritance tax is payable by a spouse, and I believe that especially the wives have deep concerns because, if something wrong happens whilst they are posted in Tokyo, they might lose their residence in their home country because their property globally will be subject to Japanese inheritance tax. I understand that this is a favorite subject of conversations over the past couple of years when the wives get together.

Now, there was a rule change in April, which extended the period of exemption to 10 years. That is quite good and it seems that the hurdle became lower for those who are newly coming into Japan, however, this may work as an incentive for those who have stayed in Japan for over 10 years to leave Japan because there is a 5 year claw-back which will make all property whether in Japan or not subject to Japanese inheritance tax should something happen within 5 years of departure from Japan. Also, it makes it difficult for foreigners who were in Japan in the 70's, 80's or the 90's, who got married with a Japanese person, returned home but wish to come to Japan again due to the recent business opportunities to return to Japan with their Japanese spouse. Or an international couple may wish to live in Japan as their ultimate home, but if approximately only one-half of the assets can be retained if something wrong happens to the other half, they would feel that they need to avoid dying here in Japan.

In this regard, as there are many, many talented foreigners working in Tokyo both in the financial sector but also in other sectors, I would think that it will be a really good thing if there is an environment where they can live and work comfortably.

**Takahiro Matsushita**

Thank you. Mr. Douglas Hymas, please.

**Douglas Hymas**

Good morning and thank you. I would like to go back to some of things that were said earlier by Mr. Kindred. I do want to thank the Tokyo Metropolitan Government and the governor for giving us this opportunity. I think it is a tremendous chance, and I commend you for the effort that is being taken here.

I would also like to just go back to some of the points that were made earlier about the fact that the desire to return Tokyo to a global financial center is not new. There have been discussions about that for many years. We all know that, but what's different this time is that there is some substance behind it. The earlier expressions were aspirational and this time there is substance behind it. I would like to speak just a little bit about that. Having worked in the

financial services industry here for over 20 years, I have seen a lot of the waves that have come and gone. I have also worked with companies, startups. I have advised others that are trying to grow from small companies to larger companies, and I would like to speak from the context of a foreign company trying to decide whether or not to open up an office in Tokyo. Those are the points that I would like to address.

As I mentioned earlier, it's worth pointing out that a lot of the foreign companies that we may be addressing are not necessarily foreign owned. Many of those foreign companies are actually Japanese owned, but for the past decade or so, they have migrated offshore to what can be deemed to be a bit more accommodating environments for either tax or other reasons. The licensing, tax, and other factors have made profitability prospects for those companies in those markets more attractive, and it is really the profitability prospect that I think is key here.

These entities are generally small to medium-sized investment management companies run by experienced, highly intelligent individuals. The decision-makers in these entities will appreciate all of the efforts being proposed here, but in deciding whether or not to relocate to Tokyo, they will focus most keenly on those measures that directly impact their profitability prospects. These include the EMP program, the tax reform proposals, and the fast-entry system, including the financial one-stop service, and I commend again those who have come up with those proposals. I think those are the core items and core submitted proposals that will greatly impact those decision-makers.

The other measures, some of which are aspirational, are commendable, and they may gradually improve the business environment over the longer term, but they are less likely to influence key decision-makers in the short-term. Therefore, in order to generate the desired buzz, as we say in English, among these offshore entities, to excite them about coming to Tokyo, promotional efforts should focus on the key substantive steps being taken through this project. I would just like to point out that as the scientific method has taught scientists to be skeptical of things that have not been proven, so has business experience taught business

leaders to be skeptical of aspirational statements that lack substance. In order to really influence those decision-makers, it is the substance we need to focus on.

I will leave my comments at that point. Later if we have a chance, I would be happy to go into more details about those substantive comments.

**Takahiro Matsushita**

Thank you very much. Mr. Kiritani.

**Shigeki Kiritani**

My name is Kiritani of Goldman Sachs Asset Management. Ever since I graduated from school, this topic is continuing, so I have a feeling that still we are working on this, but I found three very good points this time.

First, you have focused on asset management business because this can be done without natural resources, a big factory site, or logistics assistance. In order to develop a certain sizable business segment in one city, asset management business does not face many challenges. Also the business can be performed even from a remote island as far as information technology is maintained. That is exactly why Hong Kong and Singapore decided to grow asset management business.

Second, I appreciate that the concept of competition is being introduced, which I didn't see in the past when we discussed this topic.

Third, one of the important factors behind the competition is tax, and you are directly focusing on the tax system. Tax is a very important factor when we talk about competition. Someone was just talking about inheritance tax and I believe this applies to corporate tax and personal income tax as well. In the past, even if we talked about Global Financial City Tokyo, tax factor was excluded and that was quite disappointing, but this time, I appreciate tax matter is put on the top of the list.

Having said that, I have a couple of comments. First of all, because of the fact that we are in competition, we have to win. There are many measures listed here and what I would like you to verify is whether those measures are truly competitive if you compare with those of Hong Kong and Singapore. In finance industry, not necessarily limited to asset management industry, we do not need more than one core locations in Asia. Therefore, this is a ONE or ZERO question. Whatever the measures Tokyo may take to improve business environment, unless we can win over competitors, the answer will be zero. So I ask you to benchmark competitors, and to what extent you should make every effort to be competitive enough.

Secondly, this is coming back to the competition issue after all, in the asset management business, who wants Tokyo to become Global Financial City? I don't think many people have such needs. Our clients, whether they are pension plans, mutual funds, or institutional investors, they are receiving good enough services without Tokyo becoming Global Financial City. The system is in place that allows them to enjoy services. By becoming Global Financial City, Tokyo is not going to fill the needs which is not serviced by anyone. So, in order for Tokyo to find its own place, you have to get the share from other cities.

So, the keyword is competition. Competition among countries and cities. We compete to increase tax revenue, develop human resources, develop an industry, and also increase employment. So, I hope you will benchmark against competitors and see whether Tokyo can really win.

**Takahiro Matsushita**

Thank you. Mr. Philippe Avril, please.

**Philippe Avril**

Thank you very much for giving us this opportunity to discuss these very important matters for the future of Japan and future of Tokyo. I think that is becoming the true financial –

international financial center is a key point for the future of the country. So, I thank you very much for giving us all this opportunity to speak about the subject.

I think at this stage, we can say that Tokyo City is actually already a very large financial center, but it is a financial center which is mostly inward looking, which is based on the domestic market and which is established mostly for domestic players. I think that the key point is to make sure that in the future, we have more cross-border activities developing in Tokyo and that these cross-border activities are taken both by foreign companies and Japanese companies.

In order to do this, we need to have the proper resources in terms of human resources, that means having the right people to work in a fully international environment. That is true obviously for foreigners living in Japan. However, in order for foreigners to be efficient living in Japan, they need to be mostly living in Japan for a fairly long period of time. So, I think it is quite important to take measures to make sure that these foreign workers, highly qualified workers, stay in Japan for the long time.

Part of this has to do with tax. People have the hesitation when coming to Tokyo of comparing the tax situation between Tokyo and Hong Kong and Singapore, and we know that Tokyo is starting from a position which is not the best one compared to these other centers. One of these points is obviously the income tax. The other one is also the inheritance tax which is really scaring away a lot of foreigners who are living in Tokyo. So, that's a very important issue.

The second issue is the education of the Japanese workforce. To make sure that they can work in a fully international environment, meaning working in English and having the broad mentality to interact with foreign investors, foreign players and having the contact with people outside of Japan to be able to work on an equal footing with people outside the country. This is something which is still lacking.

Finally, I think that the feeling that we are competing with Singapore and Hong Kong is obviously good because it brings in the sense of urgency about the future of Tokyo as a financial center. At the same time, we must recognize that Tokyo has very different strength from Hong Kong and Singapore. It is the center of very large domestic economy with a lot of savings, and these savings need to be directed outside Japan.

So, I think that from the point of view the focus on asset management is one of the key issues, but this issue should be seen mostly from the cross-border perspective, how to make sure that Tokyo can cooperate with other financial centers in order to make sure that there is a seamless flow of investment coming from Japan to outside countries, and that goes mostly first for Asia and then of course for developed market, but that is the key point at this stage. I think that probably having a very well nurtured dialog with Hong Kong and Singapore about cross-border activities recently, which is very essential for Tokyo as well. Thank you very much.

**Takahiro Matsushita**

Thank you very much. I think you want to talk more and if you have any other comments or additional comments, please.

**Keichi Aritomo**

Thank you very much for your precious views and attending this meeting. My name is Aritomo. I am the member of this committee. I have two requests to you.

When we visit overseas, we had opportunities to meet with about 200 asset managers in the world, and the image of business environment in Japan is not very favorable. That is the feedback from those asset managers, and especially Japanese portfolio managers relocated from Japan have profound negative image towards Japan, and listening to their voices very carefully, they had bad experience in the past doing business here in Japan, and one of the facts is that they don't know that the improvement has been made in Japan since they left Japan, so there is a sort of outdated and biased understanding.

On the other hand, according to the survey with Mr. Kindred working as a core, the assessment of Japan or the environment in Japan by international financial institutions operating in Japan is getting improved. Therefore the perception gap between Japanese overseas and foreigners in Japan is getting wider. I hope you will work as a cheerleader when you go out of the country from Japan. I believe there are misunderstandings, so one thing that I would like to ask you to do is to tell the fact to the rest of the world.

Another point is about competition – competition in narrow sense and competition in broader sense. Especially, in our system, we are engaged in invitation activities, and the industries sometimes ask us why we invite the companies because it will make competition tougher, they will have more competitors because of the invitation. As Mr. Takahashi pointed out, there are voices from incumbents that it is okay to publish self-imposed regulations only written in Japanese. This is considered to be entrance barriers to control competitors coming into the Japanese market, i.e., competitive advantages for incumbents in a narrow sense. Instead, we need to enhance interconnectivity with other financial centers, just like we see in athletic community and because of the fact that there are exchanges between overseas and Japan, the athletic level is going up.

As a result of invitation, maybe there could be more competition coming in and the market share may be taken away, but it will add more opportunities of the business and the pool of human resources will get deeper, so domestically we hope that competition in broad sense be promoted, and I ask your assistance, and especially when Japanese executives like you go overseas, please rectify negative perceptions about Japan. Thank you.

**Takahiro Matsushita**

Thank you. So, Mr. Douglas Hymas, please.

**Douglas Hymas**

Thank you. Thank you, Keiichi, for your comments. I do agree. I also would like to say that I think many of us have already become ambassadors for the Japanese market, certainly within

our own companies and among those we advise. In fact, I like to tell people, “This is no longer your father’s Japan!” in terms of doing business in the financial services sector.

I would just like to reiterate one point, though, and that is that time has proven that a simple, nice, convenient environment is not sufficient to encourage decision-makers to make a change in their business. I would really like to emphasize the fact that we need to make sure that the substance behind these measures are really attractive from a profitability perspective. I especially would like to enforce the emerging manager program because that’s a great opportunity to bring managers back to Tokyo. And when those managers come here, it’s not just their own businesses that they are setting up, but they are also inviting prime brokers, lawyers, accountants, and tax specialists whose support they will need to help build those businesses, and I think that is the environment we want to create.

I would also like to just mention one other point and that is the point about competition. I think it was a very good one. We have proven even in Japan’s experience that protecting banks and other institutions here only tends to make them weaker and that competition actually makes them stronger. I think the goal here is to allow the best of the world to come here and compete against each other in order to advance and innovate to make the best products available, not only in Japan but throughout the world generating from Tokyo. I think that should be a primary goal.

**Takahiro Matsushita**

Thank you. Mr. Philippe Avril.

**Philippe Avril**

I think the point of bringing back foreign talent and Japanese talent back to Japan is very important. I mentioned before the lack of qualified human resources in Tokyo. There are actually a lot of Japanese people who are fully qualified to work in international financial environment, but most of them unfortunately have moved outside Japan. So, I think it is quite important to bring them back to Tokyo and give them incentive to be interested again by the

market. So, they need to compare their current situation with the situation they would have in Tokyo.

There are a lot of advantages living in Tokyo in terms of living environment which is already extremely good, but the business proposition may not be that attractive, so making sure that they can rebuild businesses in Tokyo, which are fairly profitable, which can compete indeed against established players is actually the key. So, making sure that these people coming back to Japan are fully welcomed and that they are being incentivized by all the changes which already have been performed by the Tokyo marketplace in the future and will happen again.

**Takahiro Matsushita**

Thank you. Mr. Kashiwagi, please.

**Shigesuke Kashiwagi**

Thank you. I would like to comment on Special Economic Zones which have been touched upon earlier on.

Currently, there are a lot of efforts being made including by the FSA and the Ministry of Finance to develop investment fund regime in Japan. There is NISA, iDeCo, which is under the Ministry of Health, Labor, and Welfare, and from the FSA, there is Fiduciary Duty. As an industry, we are making efforts and will continue to make efforts. But the investment fund regime – so this is domestic securities to be bundled up to be sold to domestic investors – that's how it started out I think, but in the future, as we heard from the Governor, we need to make investments from outside Japan into Japan easier, or we need to make it easier for domestic money to be invested outside Japan, so we need to have a more cheaper effective investment vehicle. But in Japan, we already have an established framework, so it is difficult to create a more cheaper effective investment vehicle, that is what I often hear.

For example, in calculating the price of a unit of an investment fund, the current practice is that trust banks and asset managers both calculate separately and both come together and

match and say “good” but this may be redundant. Each parties are performing what they need to pursuant to the relevant laws and regulations, and the costs will ultimately be transferred to the customer. So, this calculation could be done only once, but it is done twice. It may be that this is the good Japanese way, we are trying to be check and be sure, but this is not a standard practice elsewhere.

In terms of governance, there are a lot of focus on fiduciary duty and adequate governance of a fund. The Investment Trust Association is discussing this in various ways and amongst these discussions there are discussions on the types of funds that can be offered. So, there is the contract type mutual fund and then there is a company type mutual fund. I am getting a bit technical here and will skip the detailed explanations, but in Japan, substantial portion that are distributed are contract type investment trusts, so money is trusted in a trust bank in Japan, or in a Luxembourg vehicle, and the asset manager will manage the fund.

There is a system for company type investment funds, but tax is the problem here. In calculating the price of the shares, unrealized profits and losses are reflected but those are not realized profits or losses, and so it actually doesn't work. It will be difficult to change the tax system so that the tax regime for corporate type investment funds are aligned to contract type investment funds. So in that respect, if it would be possible to establish company type investment funds in the Special Zone which resolves all the issues, I think this is worth considering.

**Takahiro Matsushita**

Thank you very much. Mr. Kindred.

**Jonathan B. Kindred**

Thank you. I would like to relate Mr. Kashiwagi's point back to something that Mr. Takahashi mentioned in his remarks and that relates to the very peculiar and particular operational reporting requirements for the fund industry here. It is much more difficult transporting global systems into the Japanese fund market than it is into other global markets,

and this acts as a real barrier to entry, particularly for smaller managers because the cost of developing the expertise and implementing the systems required to conform to these peculiar and particular requirements is quite high. I don't think this came up that much in the panel discussion so far, but I think it would be an excellent area to focus on with respect to potential Special Economic Zone consideration, focus on the mutual fund reporting structures themselves. Thank you.

**Takahiro Matsushita**

Thank you. Any other comments?

**Atsushi Saito**

May I ask a question?

**Takahiro Matsushita**

Yes, please. Go ahead.

**Atsushi Saito**

Right now, in France, there is a new president, and France is changing its labor laws, and the most unpopular French labor contract will be changed to what Mr. Schroder of Germany did. I hear that France is going to switch, that's what I heard in Europe yesterday, so what's actually going on?

**Philippe Avril**

I think that's one of the major projects of the new president. That's one of the key points of his program, and I think it's a key point to increase the attractivity of France as an investment direction. So, that is probably true for financial markets with Brexit, but it is true for the other sectors as well. So, it is probably something which we should try to look at very carefully seen from Japan in order to make sure that we are going to implement reforms in the same way that the French hopefully will do it.

**Atsushi Saito**

In Asia, Governor Koike is challenging to all Asian Metropolitans and in Europe, Paris challenge to Frankfurt and London, right?

**Philippe Avril**

That is true. The competition is being introduced by the Brexit situation.

**Takahiro Matsushita**

Yes, thank you very much. The views today covered very broad area – human resources, English education, practical issues, and investment trust, mutual fund issues, and tax issues. Thank you very much for very precious input.

Now, going forward, as for our idea going forward, based upon the views mentioned, we would like to have the Advisory Panel meeting several times going forward, and refer to the inputs and reflect the inputs onto the final report. Lastly, I would like to have Governor Koike say a few words.

## **5 Closing**

### **Yuriko Koike**

Thank you very much for actively participating in the discussion, which was very helpful, as it provided very specific suggestions, as well as identified various problems that still need to be addressed. We will certainly refer to the very specific points brought up, including the issue of how we can continue to best use the skills of women, how to make it easier for highly skilled professionals, including managers, to work in Japan, as well as how to create an environment so that these individuals will not feel that it is time to return to their countries once they have spent nine years here. Thank you.

From the very start, we must ensure the Advisory Panel meetings do not become “NATO.” I am not referring to issues related to NATO, the North American Treaty Organization. The NATO I am referring to is No Action Talk Only. When I think back 25 years ago to when I was a newscaster on a financial program, the focus was on how to manage domestic assets to the fullest potential, and there was also the bubble economy. This was then followed by the collapse of the bubble economy. Twenty-five years have passed since then, and I definitely hope to create a movement where we not only attract domestic assets, but also foreign assets. To that end, I want to bring highly skilled foreign professionals back to Japan. And, I would also like to bring back the skilled Japanese professionals who are working overseas. I hope to make the overall environment attractive once more.

Of course, tax issues and other matters require the involvement of the central government. These issues are of critical importance, and we understand that we face an enormous challenge. However, Tokyo serves as the engine that powers Japan’s growth. Therefore, the Tokyo Metropolitan Government will make comprehensive improvements, aiming to fully demonstrate the attractiveness of the market that is Tokyo. Thank you very much for your kind cooperation.

**Takahiro Matsushita**

With this, we would like to conclude this meeting of top executives of foreign financial institutions. Thank you.

(End of the minutes)