

Advisory Panel for Global Financial City Tokyo
Final Review (Draft)

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1) Introduction

Background of Advisory Panel establishment

Savings comprise a high proportion of Japan's household assets compared to other countries; thus, not contributing to more effective use of assets. As for public pensions, they have only just begun to invest in assets overseas, despite concerns of an expected future low birthrate and aging population as well as over reliance on public pensions. Therefore, Japan needs to enhance the capability of asset management in order to overcome these social issues.

Although the Tokyo Metropolitan Government has worked on studies and put efforts to revitalize the financial sector many times in the past, it cannot be said that these have produced sufficient results. Moreover, due to the growing position of Hong Kong and Singapore as global financial centers, competition in the global arena has been intensifying.

In responding to this situation, with a sense of crisis that this is Tokyo's last chance to win back its position as the top global financial city in Asia, the "Advisory Panel for Global Financial City Tokyo" was established in November 2016 to find solutions by delving into the structural and intrinsic challenges that need to be overcome.

The objective of this advisory panel was to address structural issues on revitalization of the financial sector and the development of business in Japan by foreign financial companies, and to compile reviews for sweeping measures that can resolve these challenges. Specifically, in the first four meetings, the following efforts were conducted: an analysis of the current state as a Global Financial City Tokyo (SWOT Analysis), formulation of Tokyo's vision as a global financial city, and identification and prioritization of measures to become global financial city. After the 5th meeting, which compiled and announced the "Interim Review of the Advisory Panel Discussions", the specification of measures and clarification of issues to execute these measures were discussed.

Positioning of this Final Review

This Final Review is based on Advisory Panel members' opinions and guest speakers' presentations from the Advisory Panel for Global Financial City Tokyo, which has held eight discussions to date, the meeting of top executives of foreign financial institutions, which was hosted in June 2017, voices sought from promotional activities to attract foreign financial companies from abroad, as well as views identified through individual meetings with each panel member.

With the goal of realizing Global Financial City Tokyo, this review has compiled these inputs regarding the current status of Tokyo and the measures needed to be taken in the future based on the following perspectives:

- ✓ What are the strengths, weaknesses, opportunities and threats for Tokyo becoming a global financial city?
- ✓ What is the vision for Tokyo becoming a global financial city?
- ✓ What are the priority measures to realize a global financial city?
- ✓ What will be the executional party(ies)/roles that stakeholders working on priority issues take?

2) **Analysis: Current state of Global Financial City Tokyo**

Tokyo's strengths and weaknesses, as well as opportunities and threats, identified through an exchange of views at advisory panel meetings and individual meetings with the panel members, are as follows:

Strengths

- Abundant funds
- Secure and stable environment
- Established legal system and business customs*¹
- Variety of domestic industries
- Rich food, arts and culture
- Education standards (up to high school)
- Advanced technology (especially artificial intelligence and robotics)

Opportunities

- Outflow of talent caused by the protectionist policies of other countries (e.g. Trump Administration, BREXIT)
- Expanding investment opportunities related to growth strategies of the 2020 Olympic and Paralympic Games
- Leadership of Tokyo's Governor
- Leadership of the FSA
- Improvement of white collar productivity triggered by Japan's low birthrate and aging population

Weaknesses

- Siloed administrative organizations and slow response
- Fear of earthquakes and radiation
- Lack of English proficiency in governmental organizations
- Low predictability of measures due to discretionary administration (especially on taxes)
- Lack of continuous follow up on measures
- Speed of executing measures

Threats and impediments

- Lack of accountability
- Satisfied by only making reports
- Possibility of misunderstanding that the rich and foreigners are preferentially treated
- Negative stereotype against financial businesses
- Active measures taken by other Asian countries (e.g. South Korea)
- Negative stereotypes held by overseas Japanese residents toward Japan's authorities
- Japanese nationals living overseas with negative and outdated views of Japan's financial regulatory authorities

*¹ Excessive structure can lack flexibility and is also a weakness.

3) **Tokyo's vision as a global financial city**

The following vision for Tokyo as a global financial city was provided by advisory panel members at the meetings:

Asia's financial hub

- Utilize Japan's abundant personal funds totaling 1,750 trillion yen for Asia's growth.
- Tokyo to utilize Asia's vast savings to meet strong financial demand.
- Tokyo to be actively involved in Asian funds flow as a financial hub so that major businesses, technologies, and talent related to financial services will gather.

Gathering people, funds & technology

- Attract financial businesses, technologies and talent to Tokyo.
- Become a global No.1 city where highly skilled finance professionals and funds gather.
- Create a rich flow of talent. Develop highly skilled people and retain them.

Focus on asset management and FinTech

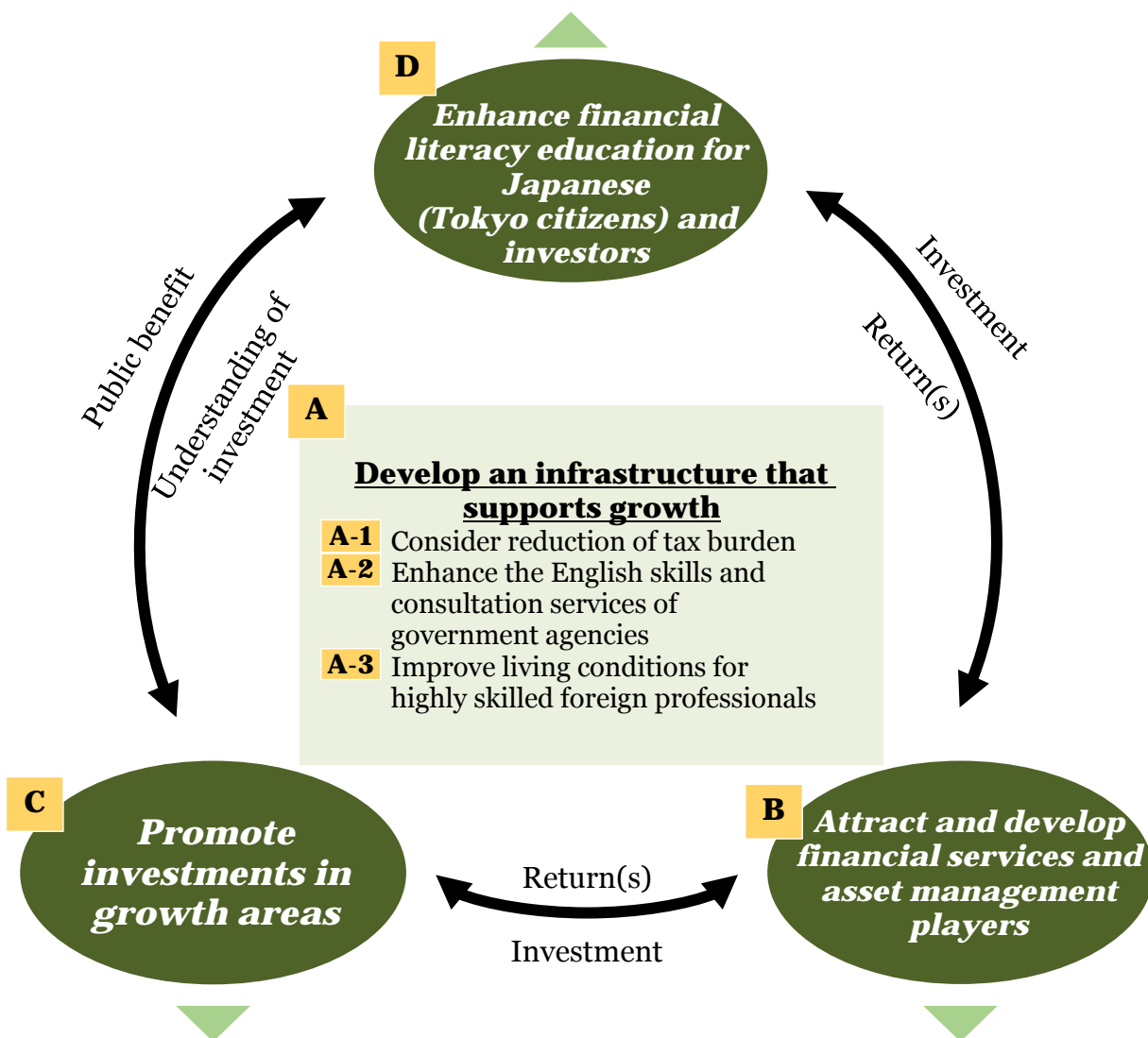
- Despite numerous issues existing for Tokyo becoming a global financial city, prioritize, promising areas such as asset management and FinTech.
- Asset management can become more successful than banking in Tokyo.
- It's better to show that Tokyo is a FinTech friendly city.

Investor & client oriented

- Japan's financial institutions should advance Japan's investment environment including NISA to become more client oriented.
- Promote investment in Japan by thoroughly executing fiduciary duties.

4) Overview of measures proposed by the Advisory Panel

- D-1** Enhance financial education, etc.
- D-2** Ensure fulfillment of fiduciary duties and corporate governance, and promote ESG investment



- C-1** Promote the development of innovative businesses such as FinTech
- C-2** Create an environment for boosting innovation (ecosystem, regulatory sandbox, etc.)

- B-1** Collaborative efforts by the public and private sectors for overseas promotion to attract foreign financial companies
- B-2** Establish the Tokyo Financial Award
- B-3** Cultivate asset management businesses (EMP, etc.)
- B-4** Nurture highly skilled financial and other professionals

5) Leadership and execution of measures proposed by the Advisory Panel

Classification	Proposed Measures	Party(ies) to be Involved	
		Lead Party(ies)	Organization in collaboration with Lead Party(ies)
A) Develop an infrastructure that supports growth	A-1) Consider reduction of tax burden	TMG・National government	—
	A-2) Enhance the English skills and consultation services of government agencies	TMG・National government	—
	A-3) Improve living conditions for highly skilled foreign professionals	TMG・Private Sector	National government
B) Attract and develop financial services and asset management players	B-1) Collaborative efforts by the public and private sectors for overseas promotion to attract foreign financial companies	TMG・Private Sector	National government
	B-2) Establish the Tokyo Financial Award	TMG	Private Sector
	B-3) Cultivate asset management businesses (EMP, etc.)	TMG・Private Sector	National government
	B-4) Nurture highly skilled financial and other professionals	TMG	National government・Private Sector
C) Promote Investments in growth areas	C-1) Promote the development of innovative businesses such as FinTech	TMG・Private Sector	—
	C-2) Create an environment for boosting innovation (ecosystem, regulatory sandbox, etc.)	TMG・National Government	Private Sector
D) Enhance financial literacy education for Japanese (Tokyo citizens) and Investors	D-1) Enhance financial education, etc.	National government	TMG・Private Sector
	D-2) Ensure fulfillment of fiduciary duties and corporate governance, and promote ESG investment	National government	TMG・Private Sector

6) Summary of panel members' discussion on measures

[Legend]: ❶ - Concerns & considerations on items discussed

A) Develop an infrastructure that supports growth

A-1) Consider reduction of tax burden

As for corporation taxes, since Tokyo's effective corporation tax rates are high compared to many other nations, the TMG needs to make an extraordinary effort while coordinating with the national government. Also, Japan's inheritance tax rules should be reviewed, since there are issues to be considered when it comes to foreign direct investment to Japan and long term foreign residents in Japan. However, tax fairness needs to be considered in case that tax reforms are to be focused on financial services.

background and aims

【Review of corporate and regional taxes(including opinions for national taxes)】

- The TMG's corporate taxes are over 30% due to excessive taxation. Japan's effective corporate tax rate (29.97%) is high compared to the UK (20.00%), Singapore (17.00%), Hong Kong (16.50%). The US's corporate tax rate is also high (e.g. New York: 43.83%) but the Trump Administration is indicating a significant reduction.

【PE tax system review*2】

- PE taxation of ratio criteria of "over 25% ownership and over 5% sale"*3 are impeding overseas direct investment to Japan.
 - ❶ Adopting preferential policies for foreigners just to increase pie of Tokyo may not be acceptable.
 - ❶ Due to FY 2008 and FY 2009 tax system revisions, uncertainties in taxation in Japan surrounding foreign domiciled funds and foreign investors has been drastically reduced.

【Inheritance tax review】

- Some say "Never die in Japan" because if someone were to die in Japan, they would have to pay a huge inheritance tax, so I think that we would need to change the mindset of the people.
- For foreigners coming to Japan, burden of inheritance tax is extremely heavy. After the amendment of the law, while major obstacles have been removed for foreigners staying for a short term, those in Japan for a long term (if in Japan for over 10 years out of the recent 15 years), may be subject to taxation on non Japanese assets for a maximum period of 5 years after leaving Japan.
 - ❶ Need to take in consideration of the issue on social inequality and conflict caused by the review of the tax system.

【Foreign asset report review】

- Listing of all assets of Yen 100,000 or more is required to submit "Foreign Asset Report" and it is very cumbersome for foreigners.
 - ❶ "Foreign Asset Report" may be cumbersome but similar forms with different minimum amounts to be reported in other countries.

【Other】

- Japan's maximum income tax rate of 55% is high and can not be found elsewhere.

*2 PE taxation Overview: When an investor invests in a domestic investment limited partnership, an investor is deemed to have a permanent establishment if ownership of assets is 25% or more of total partnership assets and is subject to domestic withholding income tax under PE taxation.

*3 Taxation on gains from the transfer of a business or other similar equities: a non-resident, foreign or domestic legal entity is subject to domestic withholding income tax if they own 25% or more of equity in a business and then decide to transfer 5% or more of it. The withholding tax applies even if the transaction to transfer the equity takes place overseas.

【Review of corporate and regional taxes (including opinions for national taxes)】

- Taking measures on Taxation are not about making Tokyo a global financial city, but this needs to be determined how Japan is positioned against the trend of US.
- It is insufficient only for the TMG to get involved in the taxation matter. Collaboration with the national government is also required.
 - ❶ Amending the national tax system only for Tokyo is extremely difficult. May not be able to receive consensus from the Diet. The TMG should make effort first.
- Relocation is easier for financial services compared to manufacturing. If tax reduction were made for financial services, especially for asset management services, it would attract more business from overseas leading to the increase in tax revenue.
 - ❶ It may be difficult to get understanding from the public of reducing corporate taxes for financial services only.
- Need for tax reduction for developing new companies that are necessary for Japan.
- Also need to discuss not only about the tax rate but also about the taxation base. Need to think how to make use of relaxation of the tax system made by National Strategic Special Zone and Comprehensive Special Zone.

【PE tax system review】

- PE taxation system imposes dual taxation in Japan and their home country, which prevents foreign investors from directly investing in Japan. PE taxation needs improvement.

【Inheritance tax review】

- Japan's inheritance tax for non residents are based on the duration of years resided while the US's defines the scope of taxation to be based on the intention rule (intention to reside permanently).
 - ❶ Some say that the former way of thinking is more objective for the above.

【Other】

- Need to discuss income tax relief for household workers' salaries in order to entice more women to work outside their homes.
- The lack of predictability in Japan's tax system prevents new businesses from emerging. It is necessary to secure more predictability.
- While tax deduction system for R&D expense will be also available for service industries from FY2017, the criteria is not clear whether it is applicable to asset management companies, etc. or not and many companies have been unaware of the system. Promotional activities to the financial services industry may be insufficient.
- It has become impossible for individuals to aggregate capitals gains/losses on publicly traded equities as well as capital gains/losses on private equities. It is necessary to amend rules of the aggregation of profit and loss under the income tax law regardless of financial losses.
 - ❶ As for the aggregation of profit and loss, it is not possible to allow an offset reduction only when loss is incurred and charging a 20% separate tax when a profit is made. To consider the aggregation, we have to also consider measures when we make profits and it is not good to only consider advantages from one perspective.

A-2) Enhance the English skills and consultation services of government agencies

For Tokyo to develop as a global financial city, it is important to enhance English services for administrative procedures. Furthermore, it is necessary to cope with concerns that foreign firms have against transparency of Japan's financial administration.

Background and aims	<p>【English services】</p> <ul style="list-style-type: none"> ➤ English is not used in business enough. For Tokyo to grow as global financial city, using English in business should be encouraged. ➤ Swift action by the administrative bodies including the TMG and English proficiency of government officials may not be sufficient. <p>【Clarification and simplification of financial regulations】</p> <ul style="list-style-type: none"> ➤ Due to rules unique to Japan such as the net asset value calculation, talent that has been working globally cannot be assigned to Japan. ➤ Japanese working abroad even have a distrust of Japanese financial regulations due to lack of clarity, which can be a hindrance to attract foreigners to start business in Japan. <p>【Improve confirmation system in advance】</p> <ul style="list-style-type: none"> ➤ The system to confirm taxation aspects for new financial products and transactions are not widely used while improvements have been made systematically. It needs to be well-publicized.
Proposal toward future course of action	<p>【Provide English services】</p> <ul style="list-style-type: none"> ➤ Financial reports and information disclosures in English need to be improved. ➤ Entry rules are mostly in Japanese and are difficult to understand. ➤ Not sufficient bilingual (English) services. ➤ As for English services for administrative procedures and consultation, even though the TMG and the FSA have already created and opened the Financial One Stop Support Service, I believe it is necessary to clarify measures related to these matters and continuously enhance them. ➤ Financial terminology used in Japan is too unique to translate into English, so we should use terminology used commonly overseas. <p>【Clarify and simplify restrictions】</p> <ul style="list-style-type: none"> ➤ Criteria for what can or cannot be outsourced are not clear. ➤ Views of distrust exist as restrictions on financial services are not transparent. If so, specific analysis should be conducted to address issues of the FSA and other regulatory bodies and be reported to the FSA. ➤ We should expedite the process of registering foreign financial companies registered in financial centers overseas. ➤ How about collaborating with the FSA's fast entry system and the manager entry system implemented by GPIF?

A-3) Improve living conditions for highly skilled foreign professionals

In order for highly skilled foreign professionals to comfortably work in Japan, it is important to take various measures; improve child-rearing environment including development of international schools, promote measures that facilitate hiring foreign housekeepers, improve health care services provided in foreign languages, accept LGBT talent, and introduce indoor non-smoking policies.

Background and aims

[Improve environment for raising children]

- With the existing issue of children on a waiting list, hiring a babysitter for foreigners is even more challenging. It is necessary to improve the environment for raising children for foreigners.
- To reduce education burden of expat's children, there is a need to improve international schools in Tokyo.
 - This is not only an opportunity to reduce the cost of education for the children of foreign residents, but also an opportunity for Japanese children to become global talent.

[Promotion of the use of housekeepers]

- It is often said that people want to bring their helpers with them, but cannot obtain visas.
- To facilitate women to pursue their life plans, more housekeepers and nurseries might be needed.
- People who hire housekeepers are probably highly compensated, highly skilled people. Thus, it is important not to keep them confined at home.

[English support in medical services]

- In terms of healthcare, I often receive questions asking for healthcare services in English.
- In order to succeed in the competition among cities, we should try hard to provide better services such as multi-language healthcare services and to develop international schools.

[LGBT]

- Just like the entrepreneurs in Silicon Valley, diversity of talent is important. Tokyo should also aim to foster an environment that attracts people from diverse groups including the LGBT community that are said to have rich creativity, and engineers trained in computer science from Israel and India.
- Since diversity is crucial to innovation, Japan should consider attracting more diverse players.

[Improve environment for raising children]

- Providing support for people coming for international schools is important.

[Promotion of the use of housekeepers]

- Make conditions easier for expats to hire housekeeping staff.

[English support in medical services]

- Improve English support in medical services.

[Introduce non smoking indoors]

- All restaurants in Tokyo should be non smoking.
- Smart safe city, making Tokyo a non-smoking city can be a major differentiating factor.

B) Attract and develop financial services and asset management players

B-1) Collaborative efforts by the public and private sectors for overseas promotion to attract foreign financial companies

Similar to London, Tokyo needs to create a dedicated overseas promotional body to attract foreign financial companies, etc. via strong coordination between the public and private sectors. Function, structure and other related matters on overseas promotional body need to be discussed in detail.

Background and aims

【Need to attract】

- In order to use Japan's 1,750 trillion Yen of individual funds for Asia's growth, there is a need to advance asset management by developing asset managers, both domestic and international.
- Attract new asset management firms to advance asset management.

【Public-private jointly led comprehensive body】

- To plan well on a continuous basis, it is important to look at things from the big picture and to assure that different entities and organizations will collaborate together.
- The FSA, the Japan Securities Dealers Association and Japan Investment Advisers Association as self-regulated organizations, JETRO, JIAM, the International Bankers Association (of Japan), and the Japanese Bankers Association – but none has all the needed functions for overseas promotion.

【Establish Tokyo version of Lord Mayor】

- CityUK is very beneficial in the UK. It is independent from the City of London and is collaborating with it.
- It believes in collaborating with other financial centers accelerating flow of businesses.
- Because it is beneficial for Tokyo to promote the appeal of “Global Financial City Tokyo,” the creation of a Tokyo version of the Lord Mayor is also a positive thing.
 - › This could be a great platform to demonstrate that action really is happening in Tokyo, and to show the effort taken to set it up.
- We should all create the Tokyo Financial Center Promotion Alliance together.

【Information dissemination to the public】

- In order to make this reform successful, it is necessary to disseminate information to the public and make them our fans.

【Clear leadership: accountability in action】

- In the past, there were no organizations whose mission was to develop Tokyo as a global financial city. We relied on the autonomous efforts of industry associations or government agencies.
- We often tend to use the phrase “collaboration between public and private sectors”, but it lacks clear accountability; as a result, the measures may not be executed.

【Firms to attract】

- When attracting firms, need to focus targets on foreign asset management and FinTech firms.
- When we attract foreign asset managers to Tokyo, we must remember that funds can be managed in Hong Kong and products sold in Tokyo. Thus, we need to ensure that the asset managers bring their investment management functions to Tokyo.
- Need to develop a structure to cause innovation by accumulating related firms in the ecosystem.

【Public-private jointly led comprehensive body】

- When creating a finance promotional organization, Tokyo needs to consider what kind of functions are necessary, what the objectives are, how governance structures should be designed and what steps are required to succeed.

【Establish Tokyo version of Lord Mayor】

- Establish the Tokyo version of Lord Mayor and promote through a single organization like London's.
 - › Someone from the private sector should be the Tokyo version Lord Mayor.
 - › Do not duplicate the traditional and complex Lord Mayor system, but establish a leader and an organization responsible for sales and marketing activities promoting Tokyo as a financial center.
- One goal should be to create large flows of capital between Tokyo and London, while constantly coordinating and communicating with each other.
 - ❶ To prevent competing for market share, first of all, we should develop a common vision and goals, as well as necessary operating model and roles.

【Information dissemination to the public】

- Need promotion activities to fill in perception gaps foreigners have about Japan.
- Need to create success stories of products, industries and follow up stories rather than typical PR campaigns conducted by governmental bodies.
- The power of the media is critical in order to share a large volume of information.

B-2) Establish the Tokyo Financial Award

It is expected that awards for both domestic and foreign companies that work on resolving Tokyo's issues and/or ESG area shall be established so that Tokyo will gain more attentions from abroad.

Background and aims	<p>【The goal of the Tokyo Financial Award】</p> <ul style="list-style-type: none"> ➤ Establish Tokyo Award to be prestigious as the Nobel Prize, similar to a stepping stone to the Nobel Prize in Economics, and related to finance. ➤ While many discussions exist around the Tokyo Award, having it would direct highly skilled professionals to Tokyo and would accelerate entry of such talent to Tokyo. ➤ It would be quite effective if the award can be cultivated into an international award, by having participation not only from Japanese companies, but also from companies overseas. ➤ Establishing a Tokyo Award related to ESG is expected to enhance Tokyo's international role in the world.
Proposal toward future course of action	<p>【Planning and execution methods】</p> <ul style="list-style-type: none"> ➤ Discuss the establishment of an award that solves practical everyday problems raised by the people in Tokyo or foreign tourists. Singapore awards firms that have proposed solutions to problems raised by the general public. ➤ This prize should not just be for theoretical and applied finance, but also for statistics, and for data management. <ul style="list-style-type: none"> › Theme does not need to be limited to addressing Tokyo's problems and needs; it can be a challenging theme based on the enormous data set related to Tokyo that captures the interest of top-class individuals. ➤ We should award people in creative ventures that come up with and realize creative financial activities and services that benefit society. ➤ If Tokyo could award firms raising proposals that would realize these ideas of "Smart city, Safe city, Diversity", Tokyo would be able to show its own strategy and to stand out globally. ➤ Not only consider monetary prizes but also provide business platforms and matching opportunities with major corporations.

B-3) Cultivate asset management businesses (EMP, etc.)

Large-scale asset owners abroad such as public pension funds have been introducing Emerging Manager Programs (EMP) as a way to advance portfolio management. In order to nurture asset managers in Japan, similar measures should be taken and begin planning in details. In addition, opportunities for matchup between asset managers and institutional investors need to be created and support system for middle and back office operations needs to be enhanced.

Background and aims

【EMP*4】

- Japanese public pension funds impose manager entry system that demands high standards on asset management performance and amount of funds managed, that make only large sized asset management firms to enter possible.
- While existing players may resist entry of new players, in order to advance asset management, it is necessary to promote understanding.
- As large scale asset management firms for public pension funds abroad are involved in EMP to advance portfolio investment, Japan's public pension funds and asset owners may also provide funds.
- EMP is not philanthropic program but like an R&D investment. Because we can benefit from first mover advantages, it makes sense from a business perspective.

【TMP (Transition Manager Program)】

- If talent we cultivated under EMP leave Japan, then our efforts will be in vain. Thus, we also need to make efforts to attract them and keep them in Japan.
- In the US, a system of advancement exists where once graduating from the Emerging Manager status, a manager is upgraded to Transition Manager and a Transition Manager with a track record then becomes an official player.

【Develop networking among asset management firms】

- The South Korea NPS visits overseas asset managers to have discussions with them. But Japanese asset owners (e.g. public pensions) just sit at their offices in Japan and reject managers who may visit them, saying that they are not licensed.
 - › Overseas asset managers are frustrated with the large number of gatekeepers in Japan. They don't know whether it is better to try to break through them or to try to develop relationships with them, and thus have a strong sense that the market is closed.
- Many overseas asset managers are asking if the Tokyo Metropolitan Government will help them identify strategic partners with whom they can share the same investment philosophy.

【Support for middle and back office operations】

- Would like to have a system for efficient operations whereby middle and back office functions can be outsourced to specialize in asset management only.

*4 EMP: Emerging Manager Program (Program to develop new asset management firms) The program supports efforts to discover and develop young managers aiming to become asset managers by providing funds to them.

【EMP】

- In addition to foreign fund managers, independent domestic fund managers that were overlooked in the past should also be given the same opportunity.
- When introducing the EMP, the economics and social significance of nurturing EM need to be balanced.
- Can the TMG also be a seed money provider?
 - How about providing seed funding for managers establishing new funds in alignment with FSA's new standard to grow assets long-term?
 - It is better to invest through Fund of Funds or seeding platforms rather than directly investing in fund managers.
- To establish an EMP, it is necessary to consider the number of institutional investors, asset classes to be in scope, governance structure and design, seeding platforms and PM selection methods.
 - There is a need to raise institutional investors' awareness and learning.

【Develop networking among asset management firms】

- Regardless of licensed or not, would like to have an event where many investors gather in a single event.

【Support for middle and back office operations】

- To support middle and back office operations, it is important to create a system where anyone can have immediate access and begin business, and thus, Tokyo provides economic support to the system.

B-4) Nurture highly skilled financial and other professionals

As bilingual asset management professionals are scarce in Japan, to improve the skills of those professionals in asset management companies, it is necessary to enhance educational platform that links asset management business theory with practices by utilizing the Tokyo Metropolitan University's program.

Background and aims	<p>【Provide education to asset managers】</p> <ul style="list-style-type: none"> ➤ In Japan, bilinguals with asset management expertise are scarce. Even if there were any, they are costly. <p>【Link theory and practice in education】</p> <ul style="list-style-type: none"> ➤ Need to strengthen Japanese asset management education in theory and research. <p>【Provide appropriate appraisal and hiring system】</p> <ul style="list-style-type: none"> ➤ Provide an environment for professionals with advanced investment education to be appropriately appraised. ➤ Companies also need to make extra efforts to include and allow those who have been successful abroad to work successfully within Japanese organizations.
Proposal toward future course of action	<p>【Provide education to asset managers】</p> <ul style="list-style-type: none"> ➤ Need to flexibly provide an environment for those working at asset management firms for continuous education after the workday, to upgrade skills like in New York and London. It's necessary for the TMU to undertake such measures. <p>【Link theory and practice in education】</p> <ul style="list-style-type: none"> ➤ Need for education to link theory and practice in the asset management business; should also utilize cross appointment system*⁵. ➤ Would it be possible to consider joint projects and mutual exchange programs for researchers between the TMU and universities in London? <p>【Provide appropriate appraisal and hiring system】</p> <ul style="list-style-type: none"> ➤ Need a system for highly skilled professionals to be individually appraised and be promoted. ➤ Provide means for highly skilled professionals to join firms any time. <p>【Specialize education in specific areas】</p> <ul style="list-style-type: none"> ➤ Need to specialize education in specific areas: AI, robotics, computer science, data science etc. ➤ Need to strengthen English education to invite professors from overseas universities and collaborate with programs overseas as English proficiency would be required.

*⁵ Cross appointment system: a system that allows researchers to be employed by two or more organizations such as universities, public research institutions and corporations. By managing employment to a certain degree, holding multiple jobs within the research, development and education roles assumed in respective organizations is allowed.

C) Promote Investments in growth areas

C-1) Promote the development of innovative businesses such as FinTech

To develop and promote innovative business such as Fintech, measures to create opportunities for matchups and provide incentives to start-ups are necessary.

Background and aims

【Attract FinTech related firms】

- Should attract FinTech firms and venture firms related to AI, robotics and ecosystems.
- Should attract many venture capital firms that are involved in creating innovation such as FinTech.

【Provide matches for firms】

- Like Singapore, if the government can provide a matching scheme for FinTech venture capital firms, highly skilled talent and firms may gather.
- Should promote collaboration between financial institutions and FinTech firms. There are cases where an event was held and ideas were shared to develop a service or system in a short period with result.
- While there are various active incubation programs for Fintech businesses, there is a concern that there are not as many firms (ventures) to invest in, compared to the amount of funds available.

【Invest in FinTech related firms】

- By introducing supportive measures to enhance investment returns to FinTech venture capital (firms), highly skilled talent may gather.
- Flow of funds needs to be improved by providing advantages and incentives such as preferential tax treatment for start-ups and investors' tax deductions for start-up investments.
- Japan's crowdfunding can be classified into donation type, purchase type and investment type. Purchase type crowdfunding is based on empathy and blends in well with the Japanese psyche and thus has room for rapid growth.
 - Crowdfunding allows the fund provider's intention to be visible of where and how the money is used.

【Creation of opportunities to matchup companies】

- The TMG's planned accelerator program may be used as a meaningful tool for Tokyo to make its presence known to the world as a global financial city, by making it a platform that attracts foreign firms and promotes the development of Japan's FinTech.
- By having accelerator programs and hackathons, firms and people may temporarily come to Tokyo/Japan for those causes, but to make it more permanent, further designing of schemes needs to be considered.

【Invest in FinTech related firms】

- Should support investments in developing R&D and proof experiment environment for FinTech firms and assuring security.
- In Singapore, when a match-up is done using funds raised by investment and it succeeds, it will be repurchased at 10% interest, while failed investments will be kept as equity.

C-2) Create an environment for boosting innovation (ecosystem, regulatory sandbox, etc.)

To boost innovation in Tokyo, measures such as forming a FinTech ecosystem that clusters venture businesses, venture capitals, as well as research centers, etc. and developing a regulatory sandbox are necessary and similar measures have been employed overseas.

Background and aims

【Formation of a FinTech ecosystem that gathers various players】

- Believe Tokyo becoming a FinTech museum through uses of Regulatory Sandbox and other zones relaxing restrictions is directionally good.
- By establishing an incubation facility, expert knowledge can be utilized where people of the Bank of Japan, Japanese Bankers Association, asset management firms and academia can work together.
- In New York, in order to combine expert knowledge from both the academia and the real world, Cornell University will be establishing a large FinTech Center.
- In Cambridge in the US, venture firms, venture capital firms and research institutes cluster creating innovation. Like this example, should develop a cluster so that firms can easily launch business in financial services.
- A cross industry ecosystem where various industries such as technology (AI and IoT, etc.), health care and manufacturing industries coordinate should be built.
- The key to innovation is gathering various participants in the ecosystem to interact and implementing a system that creates intended innovation.

【Regulatory Sandbox*6】

- There needs to be greater collaboration amongst regional bodies, the government, private companies and educational institutions. One of the reasons why Japan has been successful in researching iPS cell and regenerative medicine is that academia's skills have been complemented by the government amending the law which resulted in a more timely approval process. This action has resulted in global companies carrying out research activity in Japan and applying for approvals.
- The social penalties for 'grey businesses' are significant in Japan. There should be more tolerance for venture companies such as Uber and Airbnb, developing in these grey areas.
- A balance needs to be made between areas where rules must be followed strictly and areas where some flexibility is permitted.
- A Regulatory Sandbox has been introduced in the UK and Singapore but it is not altogether clear which rules have been relaxed. The term, "Sandbox" gives the impression of being industry friendly and many countries are adopting the use of the term as part of a strategy to attract FinTech business.
 - ❶ The measure may lose its appeal unless it is clear what the benefits are and which rules can be relaxed.

【Attractive labor market for foreign companies】

- Japan's labor law is overprotective and it is necessary to create employment environment which has flexibility and high mobility of labor force.
- Strategic human resource management, such as hiring highly skilled talent for a project and disbanding the project if results are not achieved, carries high risk in Japan because termination is difficult under its employment system.

*6 Regulatory Sandbox: Also known as a "sandbox for rules" it allows for the temporary relaxation of rules to develop new businesses such as FinTech. It aims to promote innovation by providing room for experimentation and respite from applying existing laws.

【Open API】

- Japan is quite advanced in open API as foundations are laid for cooperation between Japan's financial institutions and FinTech firms to deliver advanced services.

【Utilizing AI/robo advisory】

- Financial literacy can also be enhanced by actively promoting asset management applications such as robo- advisers and AI (artificial intelligence).
- Since Japan has been traditionally strong in technology, a financial city maximizing usage of robotics and AI can also be explored.

【Trading market where listing criteria is reasonable】

- There is much demand for listing shares that are difficult to list elsewhere or only listing class shares and not common shares.
- Would it be possible to make it easier for Fintech ventures to go public?

【Formation of a FinTech ecosystem that gathers various players】

- Support is necessary in selecting a strategic location for people to gather, establishing facilities and introducing incentives in order to create cluster.
- To build an ecosystem, communication with academic research institutes is important.
 - It is critical to cluster across-the-board, including venture firms, the FSA, governmental organizations, major banks and other technology development organizations.
 - Good coordination with legal services, accounting and consulting services and securities firms services is essential to realize a financial city.
 - It is also important to have accelerators and concentrators physically close to practitioners and research institutes.
- If New York FinTech Center’s satellite center were established in Tokyo, then existing expertise may be leveraged.
- How about considering the possibility of establishing an arbitration center in the special zone for asset management and FinTech business where London City’s regulations and UK law are applied in English?

【Create a city with high visibility】

- Should establish a global standard from Japan by Tokyo coin or being a global data center by utilizing Tokyo’s image as a safe and reliable city.
- Japan has a high technological standard but has not become a global standard. Should build a business model that can be translated to Asian countries with high population and realize scale merits beyond borders.
- Having a program for foreign tourists to experience Japan’s FinTech technology during their stay is good.
- Japan can portray a new city lifestyle where FinTech and urban transportation systems are integrated as Japan’s lifestyle closely intertwines finance and transportation.

【Regulatory Sandbox】

- When designing specific measures, it’s necessary to clarify how to change specific rules in the regulatory sandbox.

【Open API】

- Should support investments in an open API so FinTech firms and banks can cooperate more easily.
- The TMG has a treasure chest of data – public trains, buses and hospitals operated by the TMG and weather data. By disclosing such data to the public, securing data anonymity, it would promote open innovation.

D) Enhance the financial literacy education for Japanese (Tokyo citizens) and investors

D-1) Enhance financial education, etc.

In order to enhance Tokyo's financial market and revitalize the financial industry, it is necessary to enhance financial literacy of Japanese by providing financial education for students and others. To attract foreign highly skilled talent to Tokyo, it is also necessary to consider measures for foreign students studying abroad in Japan.

Background and aims

【Need for investment education】

- The general public's financial literacy is a matter of concern for the country. Improvement of financial literacy of the various layers of the Japanese will engender further development and vitalization of Japan's financial services industry.
- Enhancement of financial literacy of the Japanese people, it will create financial markets of a middle class never witnessed in the world.

【Education through products】

- It is more realistic for the general public to learn from experience through products like NISA, rather than education.

【Investment education in primary, secondary, and higher education curriculum】

- To improve financial education, while a request for changes to the educational guidelines is made to MEXT, it is possible for the TMG to take its own advanced initiatives.

【Incentives for international students】

- Foreign students studying in Japan are extremely promising talent as Japan goes more global. Nurturing and utilizing such resources effectively will lead to increasing competitiveness for financial institutions.
- Having more foreigners around (including primary schools), may shift the Japanese view of foreigners and may have good influence.
- Believe providing educational opportunities for distinguished children from developing countries will act as a stimulus for Japanese children.

【Raising financial literacy】

- Collaboration among various parties is important for people to gain basic financial knowledge.

【Investment education in primary, secondary, and higher education curriculum】

- Should teach fractions etc. to understand basic knowledge of finance in primary and junior high school mathematics.
- Providing a systematic opportunity to learn economics in high school is good.
- Intel provides pro bono programming education at a primary school in Saitama. Believe it would be good for corporations to provide such investment education opportunities.

【Incentives for international students】

- How about providing support for foreign students to study at Japan's advanced educational institutions and benefit-type scholarships to promote Japanese students to study abroad?
- As there are few countries providing scholarships to foreign junior high and high school students, this may be meaningful to consider.

D-2) Ensure fulfillment of fiduciary duties and corporate governance, and promote ESG investment

It is critical to ensure fulfillment of the corporate governance and stewardship code. Furthermore, Tokyo could differentiate itself from other global financial cities by taking leadership in ESG investment initiatives including green finance.

Background and aims

【Business operations in the interests of the customers and beneficiaries(fiduciary duty)】

【Spread corporate governance and stewardship codes】

- Need for asset management industry to win trust from the public by conducting advanced asset management and assuming fiduciary duties to further develop the industry.
 - Foreign asset management firms will find the accelerating the shift from savings to investments through thorough execution of fiduciary duties, attractive.
- Need to align interests of client/investor/financial firm, in terms of quantity and quality, to attract domestic and international investment.
 - With regard to fiduciary duties, one should consider not only the quantitative aspects but also qualitative aspects and think what is in the best interest of depositors and investors.
- Need to secure more transparency on costs as Japan's commissions are high burdening clients.

【Green finance】

- Embassies throughout the world are offering green finance seminars and this will be a rapidly growing area in the future.
- As green finance is spreading from bonds to other areas, within ESG, Tokyo should especially focus on the green.

【ESG investment】

- ESG investments provide a great opportunity for Tokyo to enhance its reputation by providing a good model for investment and governance, and differentiating itself from other global markets.

【Business operations in the interests of the customers and beneficiaries(fiduciary duty)】

【Spread corporate governance and stewardship codes】

- Corporate governance and stewardship codes are success cases. Spreading and thoroughly executing them are important.
- As market conditions differ among countries, a simple comparison does not suffice. An objective analysis on what they really mean and imply needs to be conducted.
- A virtuous cycle where Japanese companies are managed in order to increase enterprise value, and Japanese individual investors believe in them and in turn buy shares, needs to be created.

【Green finance】

- How about setting up an opportunity for the TMG and experienced UK parties to discuss green finance, its definition and how it works?
- By disclosing metrics from the initiatives of “(Financial Stability Council’s) Task Force on Financial Information Disclosure on Climate Change”, it would become easier to value equities and assess their substance.
- Can green finance be featured in Tokyo’s financial market to meet Asia’s demands for infrastructure?

【ESG investment】

- ESG is a concept that Japanese firms have been successful at and are familiar with. It is important to make rules and adopt the PDCA cycle.
- To promote ESG investment, verifying the link between social benefits and investment returns is important.
- By organizing a database to quantify corporate information through WIN (MSCI Japan Empowering Women Index), corporate value can be fairly assessed, becoming a differentiating factor from other countries. By organizing a database with wider a range of corporate information and introducing new indices, more ESG investments are expected.

7) **Future course of action**

Since November 2016, the “Advisory Panel for Global Financial City Tokyo” has held eight meetings to discuss what it will take for Tokyo to reassume its position as the top global financial city in Asia. Specifically, they discussed the revitalization of the financial sector and the development of business in Japan by foreign financial companies, and studied sweeping measures to resolve such challenges. The Advisory Panel has compiled the results of such discussions as the Final Review to report to the TMG.

This autumn, based on the Advisory Panel’s Final Review, the TMG will compile the Policy Report for “Global Financial City Tokyo”, a report that could be called the “Tokyo Financial Big Bang”. The next step will be to focus on how to execute each measure compiled in the TMG’s Policy Report by considering the following points.

- ① Looking back on the fact that many efforts conducted in the past to revitalize finances have not resulted in success, and that reports were created for the sake of reporting, no matter how small the achievement may be, it is important to speedily take action, show results and steadily build upon them; progress should be made with the spirit of “Grow larger at birth small” (begin small and grow big) in mind.
- ② Among the measures proposed by the Advisory Panel, there are ones that can be executed immediately within the TMG’s budget, while others require further discussion even though most of the members agree to the importance of it, such as creating a body for overseas promotion. In order to realize such measures, further work should be continuously conducted to identify remaining issues and clarify specific actions needed to be taken.
- ③ To realize Global Financial City Tokyo, close coordination among the TMG, national government and the private sector is essential. These initiatives shall not be one-time events but need to be ongoing initiatives over the mid to long term. The goal is not to announce the Policy Report for “Global Financial City Tokyo”, but, under the joint efforts of public and private sectors, promote the initiatives described in the Policy Report and discuss any remaining issues. By doing this, the momentum behind developing Global Financial City Tokyo, which has grown among stakeholders through the Advisory Panel meetings, can get expanded further.

Governor Koike has repeatedly mentioned we should refrain from “No Action Talk Only” during the Advisory Panel meetings. With the goal of realizing Global Financial City Tokyo, we hope that the public and private sectors will work together and take action to execute each of the measures discussed in the Advisory Panel meeting and described in the Policy Report which will be compiled in near future. The Advisory Panel members will fully cooperate by utilizing each member’s expertise even after the advisory panel is disbanded.

Reference

I. Summary of meetings

(Titles omitted)

First Meeting (November 25, 2016)

- Discussion on issues to be taken up by the advisory panel and future proceedings
- Presentation: Voice of Overseas and Independent Asset Managers on Japan Market (Keiichi Aritomo)

Second Meeting (January 31, 2017)

- Immediate Measures for Attracting Foreign Financial Companies
- Results of interviews with panel members
- Presentation: Global Financial City - Tokyo Priorities and Recommendations (Jonathan B. Kindred)
- Presentation: Tokyo Financial Center - Personal View: Goals, Principles & Accountability (Jesper Koll)

Third Meeting (February 14, 2017)

- Review of the last meeting
- Presentation: Taxation scheme– An Observation (Toru Suda)
- Presentation: Observations from Education and Human Resources Perspectives (Nobuo Sayama)
- Presentation: Development of Emerging Asset Managers - Supply of Seed Money and EMP (Yoichiro Iwama)

Fourth Meeting (April 14, 2017)

- Presentation: Key Take-aways from Singapore and Hong Kong Roadshow (Keiichi Aritomo)
- Presentation: Tokyo - Global Financial Centre- (Sir Roger Gifford)
- Presentation: Finance, Innovation, Technology (Hiromi Yamaoka)

Fifth Meeting (May 19, 2017)

- Report: Interim Review
- Presentation: Financial Policies to Promote Global Financial City Tokyo (Motoyuki Yufu, Deputy director-General of the Planning and Coordination Bureau Financial Services Agency)

Sixth Meeting (July 11, 2017)

- Report: Interim Report on Policy for Global Financial City Tokyo
- Presentation: Toward the creation of a FinTech ecosystem (Tokyo version FinTech center) (Soichi Kariyazono)
- Presentation: Promoting Tokyo as a global financial center (Keiichi Aritomo)

Seventh Meeting (September 12, 2017)

- Presentation: Tokyo from the Viewpoint of Global Investors (Hiro Mizuno, Executive Managing Director & Chief Investment Officer, Government Pension Investment Fund, Japan)
- Presentation: Our contribution to the Tokyo Metropolitan Government to Revitalize Tokyo's Financial Sector (Rosalind Champion, Minister Counsellor, Economic Affairs, Strategy and Communications, British Embassy Tokyo, Japan)
- Presentation: Introduction of EMP for Global Financial City Tokyo - Major Considerations (Keiichi Aritomo)

Eighth Meeting (October 13, 2017)

- Report: Final Summary Report

II. Member list

(Titles omitted)

- Governor of Tokyo Yuriko Koike
- Representative Director, The Consortium for Japan International Asset Management Center Promotion Keiichi Aritomo
- Chairman, Japan Investment Advisers Association Yoichiro Iwama (Meetings 1 to 5)
Akiyoshi Oba (Meetings 6 to 8)
- Chairman, Japan Venture Capital Association Soichi Kariyazono
- Professor of Waseda Business School Yuko Kawamoto
- Chairman, KKR Japan Limited Atsushi Saito
- Representative Director, Integral Corporation Nobuo Sayama
- Chairman of the Board of Trustees, Tokyo Metropolitan University Haruo Shimada (Meetings 5 to 8)
Chair, Area Promotion Council of the Special Zone for Asian Headquarters
- Chairman, Japan Securities Dealers Association Kazutoshi Inano (Meetings 1 to 5)
Shigeharu Suzuki (Meetings 6 to 8)
- Certified public accountant Toru Suda
- Chairman & Founder, MONEY DESIGN Co., Ltd. Mamoru Taniya
- Chairman, Japanese Bankers Association Takeshi Kunibe (Meetings 1 to 3)
Takashi Oyamada (Meetings 4 to 5)
Nobuyuki Hirano (Meetings 6 to 8)
- Vice Chairman, The General Insurance Association of Japan Jiro Makino
- Director-General, Payment and Settlement Systems Department, Bank of Japan Hiromi Yamaoka
- Chair, Green Finance Initiative, City of London Senior Banker, SEB Sir Roger Gifford
- Chairman, International Bankers Association of Japan Jonathan B. Kindred
- CEO, WisdomTree Japan Inc. Jesper Koll