

Interim Report  
on  
Policy for “Global Financial City Tokyo”

Toward the Tokyo Financial Big Bang

June 2017

Tokyo Metropolitan Government

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## **I. Introduction**

Finance is said to be the lifeblood of economy, and we need not refer to global financial centers such as London and New York to see that a strong financial sector is essential for a city to maintain its attractiveness and competitiveness. Revitalizing the financial sector is thus crucial for Tokyo to emerge victorious in the competition against the world's cities and continue to grow.

Studies and initiatives have been conducted on various levels up to now concerning revitalization of Tokyo's financial sector, but meanwhile, the globally competitive environment around Tokyo has become even harsher, partially due to the growing presence of Hong Kong and Singapore, which are also located in Asia.

Tokyo was once a global financial center on a par with London and New York. For Tokyo to resume its position as one of the world's top global financial cities, we must tackle structural and intrinsic issues with a sense of urgency that this is our last opportunity to do so, and arrive at thoroughgoing solutions. Given that similar studies have been conducted over and over again up to now, this time around we must not simply stop at the discussion stage, but link our words to specific actions.

To that end, in November 2016, the Tokyo Metropolitan Government (TMG) set up the Advisory Panel for Global Financial City Tokyo\*, consisting of Governor Koike and experts from Japan and abroad. The panel has been discussing a wide range of matters, including challenges that exist in revitalizing the financial sector and that present obstacles to overseas financial businesses trying to enter the Japanese market, and ways to overcome these problems.

While giving consideration to the Interim Review presented by the panel in May, this Interim Report on Policy for Global Financial City Tokyo outlines the main points of the TMG's Final Report scheduled to be compiled in autumn—a report that could be called the “Tokyo Financial Big Bang.”

To make Tokyo shine as Asia's No. 1 global financial city, the TMG, national government and relevant private-sector entities must work together in close collaboration and implement both the measures described in this interim report and those that will be included in the Final Report. We hope people associated with the financial industry, both within and outside Japan, will read this interim report and join us in looking into what should be done to make Tokyo shine again as a global financial city.

## **II. Tokyo's vision for a global financial city**

Back when Tokyo was a global financial center on a par with London and New York, Japanese banks played a significant role in the development of the Japanese economy by using individual deposits and other funds to finance various projects at home and abroad. However, the loan-to-deposit ratio at Japanese banks has been declining annually, and a significant portion of Japan's 1,800 trillion yen personal financial assets is still held in cash or bank deposits.

Japan's population is shrinking and graying, and Tokyo is no exception to this. In order to emerge victorious in the competition against the world's cities, Tokyo must continue its economic growth even after its population starts to shrink in earnest.

Currently, Japan's finance and insurance industries account for less than 5 percent of the GDP. If this ratio is doubled to 10 percent—close to the UK level—Japan's GDP is estimated to rise by 30 trillion yen. Various financial service companies, both Japanese and foreign, are concentrated in Tokyo. Through revitalizing financial industries, risk capital\* will be actively supplied to cutting-edge fields with future growth potential, such as IoT, AI, and FinTech\*, which will boost these industries as well. This is the key point of Tokyo's growth strategy.

From such perspectives, the realization of Global Financial City Tokyo is positioned as the “F” (Finance) in the “FIRST Strategy: 5 strategies for growth”\*\*, which is Tokyo's growth strategy.

Global Financial City Tokyo specifically aims to be:

1. A global financial city that serves as Asia's financial hub
  - Tokyo will become a hub supplying Japan's abundant personal financial assets as funds for the growth of Japan and the rest of Asia.
2. A global financial city that attracts financial talent, funds, information, and technologies
  - Tokyo will become a city that attracts excellent financial professionals, funds and information from around the world, and financial companies with sophisticated financial technologies.
3. A global financial city that focuses on the growth of asset management companies and FinTech firms
  - The growth of asset management companies and FinTech firms will revitalize the financial sector in Tokyo.
4. A global financial city that contributes to solving social issues
  - Tokyo will become a city that contributes to solving social issues by adopting ESG investment\* and globally accepted codes of conduct for financial businesses where the interests of investors/customers come first.

Measures thought necessary to realize this vision, as well as the direction to take to implement those measures, are presented on the following pages.

### **III. Specific measures**

#### **1. Creating an attractive business and living environment**

- According to people at foreign financial firms, Tokyo lags behind other financial centers in terms of tax breaks, convenient administrative procedures including assistance in English, and the development of a comfortable living environment (e.g. health care, education). In *Doing Business 2017: Equal Opportunity for All*<sup>1</sup>, the World Bank's annual ease of doing business ranking, Japan's business environment does not rank high compared to other developed countries.
- Last year, the TMG, together with the Financial Services Agency (FSA), financial experts and private-sector businesses, established the Meeting to Discuss the Attraction of Foreign Financial Companies to Tokyo. Following discussions on how to solve the abovementioned issues, in December 2016 the "Immediate Measures for Attracting Foreign Financial Companies," which focuses on short-term measures, was compiled.
- Implementation of some of the proposed measures began from fiscal 2017, but these are not issues that can be solved overnight. It would be imperative to advance continuous efforts, including new measures, to change the image of the Tokyo market, and to attract overseas financial companies and the talent working for such businesses, and encourage them to stay.

#### **(1) Consider reduction of tax burden**

- In order to encourage domestic and foreign financial companies, particularly asset management and FinTech firms, to expand to Tokyo, the TMG will consider reducing two metropolitan taxes on corporations—business tax on corporations and metropolitan inhabitant tax on corporations—and request the national government to take such measures as cutting the corporation tax rates (e.g. employing preferential tax treatment under the National Strategic Special Zone scheme) and reviewing the inheritance tax system.

#### **(2) Enhance the consultation system and English services for financial business-related administrative procedures**

##### **i) Cooperate with the national government to speed up administrative procedures for financial businesses**

- In April 2017, the TMG opened the Financial One-Stop Support Service\* in the Marunouchi district. It works closely with the FSA's Financial Market Entry Consultation Desk\* to provide centralized support to overseas financial companies seeking to expand to Japan, assisting them with administrative procedures and helping them deal with worries and issues, such as those concerning their living environment.
- The TMG will collaborate with the FSA for the realization of a "fast-entry system," which expedites financial business registration procedures particularly for overseas financial companies viewed sure to establish a business base in Tokyo (e.g. companies granted incentives under the TMG's program to attract companies).

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<sup>1</sup><http://www.worldbank.org/ja/news/press-release/2016/10/25/record-number-of-economies-carried-out-business-reforms-in-past-year-doing-business>

An ease of doing business ranking of the world's 190 economies released by the World Bank on October 25, 2016. Japan ranked 34th, down two spots from last year's revised ranking of 32nd.

**ii) Prepare an English guidebook on procedures needed for registration/licensing as a financial business**

- By around summer of 2017, the TMG will, under the supervision of the FSA, compile an English guidebook on such matters as procedures that need to be taken for registration/licensing as a financial business in Japan. The guidebook will give easy-to-understand explanations of Japanese financial laws and regulations, how to apply for registration as a financial instruments business operator, and other matters, while citing past data and examples.

**iii) Make the Tokyo One-Stop Business Establishment Center\* more convenient (e.g. submission of documents in English)**

- In July 2017, a satellite center of the Tokyo One-Stop Business Establishment Center will be established within the Tokyo Startup Station in the Marunouchi district. By the end of 2017, the Tokyo One-Stop Business Establishment Center will start accepting tax-related applications in English.

**(3) Create a living environment where foreign financial professionals can work comfortably**

**i) Utilize the special zone scheme to promote “living close to work” projects, etc.**

- Advance urban development around Tokyo Station, the Toranomom district, and other areas to create high-quality communities close to the workplace that have facilities for health care, education, and others that cater to people from overseas. The TMG will engage in developing health care services that can provide consultation in foreign languages from the first hospital visit by employing the special provision to agreements on foreign doctors under the special zone scheme and also engage in the speedy development of international schools, serviced apartments, and other such facilities by using the special provision to the City Planning Act under the special zone scheme.
- Going forward, in addition to reviewing systems that will facilitate the further promotion of these projects, the TMG will also study measures to help international students with their life in Tokyo.

**ii) Promote the use of housekeepers by highly skilled financial professionals and other professionals**

- In order to promote the use of foreign housekeepers who meet the needs of highly skilled financial professionals and other professionals, the following measures will be taken.
  - 1) Request the national government to further ease regulations by the end of 2017 to make it easier for highly skilled foreign financial professionals to bring their parents and housekeepers with them under the special zone scheme.
  - 2) Promote the use of the special provision on foreign housekeepers under the special zone scheme through such measures as holding seminars for highly skilled foreign financial professionals by the end of 2017.

## **2. Nurturing players for participation in the Tokyo market**

- In addition to nurturing financial professionals in Japan, we also need to promote the entry of new financial players, both Japanese and foreign, to the Tokyo market, to ensure that, through innovations in the market and competition among businesses, low-cost yet high-quality financial services and products will be provided to Tokyo citizens.
- We will take measures to promote the entry of such businesses to the Tokyo market, focusing particularly on asset management companies and FinTech firms. Although the asset management business holds an important role in building stable assets for the people and supplying risk capital to growth industries, Japan's asset management industry is said to be smaller than that of western countries. FinTech firms provide new business models for more sophisticated financial services and the development of growth industries.

### **(1) Attract overseas financial companies**

#### **i) Measures such as offering incentives and easing regulations to attract firms**

- To achieve the goal of attracting 40 foreign companies in the asset management and FinTech fields in the four years through fiscal 2020, the TMG will take measures such as offering incentives and easing regulations under the special zone scheme, including the following:
  - 1) From fiscal 2017, offer free consulting including market surveys and the formulation of business plans and other matters for companies that were attracted to Tokyo, and provide them with subsidies for consultation with experts and recruiting expenses.
  - 2) Make requests to the national government for swift realization of a system in which points are specially added to highly skilled financial professionals at companies that have expanded to Tokyo, under the Points-Based System for Highly Skilled Foreign Professionals.
  - 3) Request the national government to create a system by the end of 2017 to grant a special visa status to participants of the TMG's accelerator programs in the FinTech and other fields to allow them to conduct startup activities.
- In May 2017, "Access to Tokyo" desks were opened in London, Paris, and San Francisco for liaison with overseas hub organizations such as embassies and chambers of commerce. The TMG will utilize these desks to gather information on promising companies through various routes, and quickly advance activities to attract them to Tokyo.

#### **ii) Collaborative efforts by the public and private sectors for overseas promotion**

- The public and private sectors will closely collaborate in promotional activities that are aimed at attracting foreign financial companies by promoting the appeal of "Global Financial City Tokyo" in cities overseas.
- With regard to how promotional activities should be conducted hereon, while also considering the outcomes of the abovementioned activities, studies will be conducted on the establishment of a specific promotion organization that straddles different industries, including a Tokyo version of the Lord Mayor\* system.
- Seminars will be held in various overseas cities for FinTech and other businesses to explain how attractive Tokyo is as an investment destination and accelerate efforts to attract foreign companies to the special zones.

#### **iii) Establish the Tokyo Financial Award (tentative name)**

- In order to enhance convenience for Tokyo residents and revitalize the finance industry, an award will be established for businesses that develop and provide financial services and products that can answer the needs of the Tokyo residents and issues of metropolitan administration, and spread ESG investment, which contributes to sustainable urban development. By having not only domestic companies, but businesses abroad as well, be eligible to receive this award, we will be able to attract winners to Tokyo.

## **(2) Cultivate asset management businesses**

### **i) Introduction of an emerging managers program (EMP)\* and other programs**

- In order to cultivate domestic and overseas asset managers in Global Financial City Tokyo, it is aimed to introduce programs such as the emerging managers program (EMP), which is adopted by public pensions and other funds in the United States.
- To that end, studies will be conducted on measures necessary to introduce EMP and other programs, such as holding seminars for institutional investors and others in cooperation with related organizations to raise awareness of such programs.

### **ii) Initiatives to build a system for asset management businesses**

- Asset management businesses in Japan and overseas, particularly small asset management businesses, say that they find middle and back office operations\* to be a heavy burden in conducting business in Tokyo. After grasping the actual situation, studies will be conducted on necessary measures to build a system for such operations.

### **iii) Create opportunities for matchups between asset managers and domestic institutional investors**

- The creation of opportunities to matchup domestic institutional investors with foreign asset managers who are interested in starting business in Tokyo but who do not have a track record of asset management in Japan, although they do overseas, will be studied.

## **(3) Nurture FinTech businesses**

### **i) Development of innovative businesses through implementation of accelerator programs**

- Implement an accelerator program in the FinTech and other fields from fiscal 2017, and engage in supporting the development of innovative businesses through formulation of business plans between overseas startups with superb technologies and domestic financial institutions and others.
- At that time, regarding blockchain, also engage in providing support for the formulation of business plans between foreign startups and domestic companies and investors, and others in nonfinancial areas such as supply chains.

### **ii) Create an environment for boosting innovation in FinTech and other areas**

- Study initiatives that will contribute to the formation of a FinTech ecosystem (Tokyo version FinTech center) that gathers various players such as entrepreneurs, major companies, investors and research institutions.
- With regard to the regulatory sandbox\* utilized in foreign countries to cultivate FinTech, the TMG will study possible ways to address this, based on the direction of studies within the central government.

**(4) Nurture financial professionals**

**i) Nurture highly skilled financial and other professionals**

- To facilitate innovations by nurturing highly skilled financial and other professionals, improvement of the Tokyo Metropolitan University Business School's Master of Finance Program will be considered.

**ii) Enhance financial education, etc.**

- Financial education for the general public in Tokyo, including young people, should be offered continuously and by various entities. The TMG will support efforts by the FSA and industry organizations, and hold financial seminars in collaboration with those entities and others.
- In order to promote long-term, installment savings, and diversified investment starting from small sums of money, studies will be conducted in collaboration with the FSA on measures to spread and firmly establish a new type of NISA (Nippon Individual Savings Account), which will launch from January 2018.

### **3. Contributing to solving social issues**

- To attract talent, funds, information and technology to Global Financial City Tokyo from within Japan and abroad, and to enable the citizens of Tokyo and the rest of Japan to build up their assets with a sense of reassurance, it is essential that all the financial institutions and other relevant players in the investment chain (e.g. those who sell financial products, give advice, develop products, and provide custody and asset management services in the Tokyo market) conduct business operations from the perspective of investors and customers.
- Measures will be taken to make sure that financial institutions engaged in developing and marketing financial products, and financial institutions that are entrusted with the asset management of private investors as well as pension funds and other institutional investors, respectively, take the perspective of “investors and customers first,” which is globally considered to be the proper code of conduct. This will ensure that through proper management of conflict of interests and sophisticated management of assets, business operations are truly in the interests of the customers and beneficiaries.
- The Principles for Responsible Investment were put forward by the United Nations to contribute to the realization of a sustainable society. Such trends in ESG investment, which are in the global limelight, will be actively incorporated in the Tokyo market. Through such initiatives, the TMG will contribute to the resolution of social issues.

#### **i) Measures to ensure fulfillment of fiduciary duty\***

- Based on such guidelines as the Principles of Fiduciary Duty released in March 2017 by the FSA, the TMG will, in cooperation with the FSA, consider measures to ensure that financial players in the Tokyo market fulfil their fiduciary duty.

#### **ii) Measures to ensure compliance with the corporate governance code\* and stewardship code\***

- The TMG will, in cooperation with the FSA and other entities, consider measures to spread and firmly establish the corporate governance code and stewardship code, which promote the medium-to-long-term growth of companies.

#### **iii) Promote the use of green finance**

- By the end of 2017, the TMG will issue a total of some 20 billion yen in Tokyo Green Bonds. Going forward, the TMG will consider measures to encourage domestic financial institutions and others to set up green funds and issue green bonds.

#### **iv) Establish the Tokyo Financial Award (tentative name)**

- In order to enhance convenience for Tokyo residents and revitalize the finance industry, an award will be established for businesses that develop and provide financial services and products that can answer the needs of the Tokyo residents, issues of metropolitan administration, and spread ESG investment, which contributes to sustainable urban development. By having not only domestic companies, but businesses abroad as well, be eligible to receive this award, we will be able to attract winners to Tokyo.

#### **IV. Future course of action for the formulation of the final policy report**

The Advisory Panel for Global Financial City Tokyo will conduct a deeper study of the contents of the Interim Review and also discuss points that have not been given sufficient consideration, and incorporate these matters in the final proposal to be made in fall 2017.

The TMG will study the contents of this Interim Report and other matters that will be added as measures necessary to make Tokyo a global financial city, and consider specific ways to implement them. While considering future discussions conducted by the panel and its final proposal, the TMG plans to compile and release its final policy report in fall 2017.

## Glossary

Term	Explanation
Advisory Panel for Global Financial City Tokyo (p.13)	In order to reinstate Tokyo to its position as the No. 1 international financial city in Asia, this panel was established in November 2016 to uncover the broad range of issues that pose obstacles for revitalization of the financial sector and for financial companies from abroad to set up business in Japan, and to discuss thoroughgoing measures to resolve these problems. Its interim report was released in May 2017, and the final proposal is scheduled for November 2017.
FinTech (p. 14)	A portmanteau of “finance” and “technology.” Innovative financial services employing cutting-edge technology generate new businesses and change the flow of capital.
Risk capital (p. 14)	Funds invested in risk assets that could result in loss of principal.
FIRST Strategy: 5 strategies for growth (p. 14)	A strategy revealed in the Action Plan for 2020, released in December 2016 by the TMG. FIRST stands for “finance,” “innovation,” “rise,” “success,” and “technology.” Presents the direction for Tokyo to become “No. 1 in the world” and “addressing challenges with Tokyo at the forefront.”
ESG investment (p. 14)	ESG stands for “environmental,” “social,” and “governance.” As the world faces the issue of disparity in wealth, global environmental problems that have no borders, and various issues arising from the globalization of corporate management, with regard to corporate investment, the United Nations has advocated the view that along with looking at long term gains rather than short term, focus should be placed on an ESG perspective that contributes to building a sustainable international community. As a result, financial institutions conducting investments based on ESG perspectives are spreading, centering on the United States and Europe.
Financial One-Stop Support Service (p. 15)	A service launched on April 1, 2017, by the TMG. In cooperation with the FSA, assistance in administration procedures and comprehensive consulting and other services are provided for overseas financial companies that are considering the establishment of an operations base in Tokyo. According to the contents of the consultation, the financial desk consultant will introduce them to financial experts.
Financial Market Entry Consultation Desk (p. 15)	A consultation desk set up on April 1, 2017, by the FSA. Provides consulting to overseas financial businesses thinking about opening an office in Japan, on Japanese financial laws regulating this.

## Glossary

Term	Explanation
Tokyo One-Stop Business Establishment Center (p. 16)	Launched in April 2015 by the TMG. This is the first effort taken in Japan to centralize business establishment procedures for foreign companies, startups, and other companies. Through personalized services provided by experts and staff knowledgeable in administrative procedures, the center helps facilitate the prompt completion of various filing procedures needed for incorporation and the start of operations such as certification of articles of incorporation, company registration, taxes, pension and social insurance, and immigration. If requested by a company, the center also provides support for electronic applications and translation and interpretation services in multiple languages.
Lord Mayor (p. 17)	The mayor of the City of London, the financial district. As the ambassador for the financial services industry and associated businesses based in the City, the Lord Mayor is charged with strengthening relations with overseas countries.
Emerging managers program (EMP) (p. 18)	Supports the cultivation of asset managers by discovering and providing funds to candidates aspiring to be asset managers.
Middle and back office operations (p. 18)	The “front office” directly faces the market and handles the purchase and sales of stocks, bonds, and other financial products. In contrast, “middle office” operations take a position independent from the front office to engage in matters such as risk management and fund management evaluation, and “back office” operations include the processing of trade agreements implemented by the front office and calculation of net asset value of funds.
Regulatory sandbox (p. 20)	Deregulation measure that temporarily suspends current legal regulations in order to facilitate the growth of new businesses. An initiative to promote innovation by providing a safe environment for experiments, which do not come under law immediately.
Fiduciary duty (p. 20)	Business operations in all financial institutions included in the investment chain—sales of financial products, advice, product development, custody, asset management, etc.—that put top priority on benefits for the final provider of funds and the beneficiary.
Corporate governance code (p. 20)	A code of conduct that seeks to have listed companies properly collaborate with a broad range of stakeholders (stockholders, employees, customers, partner companies, local community, etc.) and strive to improve mid- to long-term profitability under an effective management strategy.
Stewardship code (p. 20)	A code of conduct that seeks to have institutional investors (pension funds and/or management institutions that have been entrusted with the funds) conduct dialogues with companies to promote the sustainable growth of the invested company from a mid- to long-term perspective.