

Advisory Panel for Global Financial City Tokyo (Third Meeting)
(Transcript)

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Secretariat: Time has come, so we will be beginning the Third Meeting of the Advisory Panel for Global Financial City, Tokyo. From this time, we will be using the tablets. It includes the agenda and the other materials. The first part is in Japanese. After page 42, is in English. Materials will automatically change as the presentation goes on. Please look at the participants list for those who are attending today. Ms. Kawamoto and Mr. Taniya will be a little late. So, first we will begin with Governor Koike's address.

Yuriko Koike: Allow me to be seated. As you can see, starting from using A3 paper, then to A4, and then it's now paperless as you can see. This is part of the Grand Reform of Tokyo. We would like to switch into this methodology, using data. Thank you so much for joining us today again, out of your very busy schedules. And from London, Sir Roger, thank you so much for your participation from London again.

Sir Roger Gifford: Good afternoon.

Yuriko Koike: In the last meeting, to start a meaningful discussion to realize a global financial city, Tokyo, we received your candid opinions, and Mr. Kindred and Mr. Koll shared with us Tokyo's potential seen from abroad. On the 10th, last week, Tokyo's Strategic Special Zone Council Meeting was held and regarding the Tokyo One-Stop Business Establishment Center which is located in Akasaka, an announcement was made to establish a satellite center right next to Hikarie in Shibuya.

Various measures have been taken including developing cutting edge finance function in Tokiwabashi and building housing for foreigners in Atago. We are now accelerating these projects to help realize international financial city. Tokyo Metropolitan Government has been working on measures to invite overseas financial talent and companies, both in hard infrastructure and soft infrastructure.

In the United States, President Trump took the helm to review financial regulations. During the campaign, as for the corporate tax rate, he announced that he will change it from 40% to 15% to 20%. The shocking numbers were announced, but still the specifics have not been publicized as it seems. In anyway, I think the impact on finance and economics circles would become clear gradually.

The environment is changing dramatically. In order to achieve growth by winning the competition amongst the cities and realize a smart city, from Kabutocho to Otemachi, creating the financial street was one of the things that I mentioned before. President Trump is talking about constructing a wall between Mexico, but I would like to create a Wall Street from Kabutocho to Otemachi. It is a “wall” but a different type of a wall.

I understand that there are many issues, but I hope that this meeting will not become a meeting for meeting. We would like to make some steps forward.

As for today, on the taxation system, investment education and fostering asset managers, on these individual important themes, the experts will be making presentations to us followed by a session of exchanging opinions. We look forward to having an active discussion for building fundamental measures for financial revitalization. I am looking forward to having a discussion with all of you. Thank you.

Secretariat: Thank you very much. As for the agenda, Mr. Saito, our chairman, will proceed the meeting.

Atsushi Saito: We will be looking into the issues today. First of all, we would like to go over our previous meeting very briefly.

The themes were education, tax and AI/robotics and sandbox. Also, we have discussed about how Tokyo looks from overseas. I believe these were the issues that we covered previously.

As far as the education is concerned, when we look at the undergraduate and graduate school, it seems that Japanese companies are not assessing their expertise and skills appropriately, and we need to define the meaning of what global financial city more specifically.

As for FinTech, we need to strengthen the startups of FinTech and it is something that we need to discuss. Also, to attract skilled talent, Mr. Sayama pointed out the importance of creating award related to finance in Tokyo.

As for taxes, we have broadly discussed this topic. We should probably use the existing special zone, and what can be done to make it more friendly for the finance sector. Mr. Makino has mentioned that to us.

From Mr. Suda, since tax is multidimension of tax rate, taxation base and type of tax, we should not talk only about tax rates, but we should talk about tax in its entirety. Low predictability of taxation system in Japan is an issue, therefore, the governmental offices need to make effort to publicize the changes in tax rule more actively. And, on the other hand, financial institutions need to act and ask for information on such changes. Mr. Makino has also indicated such issues.

AI, robotics and sandboxes are very important areas. Make Tokyo a city where robotic investment is made, and where asset managers who are strong in robotic investment gather. Mr. Kariyazono gave us that indication. He also told that by utilizing FinTech and robotics technologies, we can develop city in new perspective. In addition, he indicated that sandbox is something that should be promoted imperatively and there are some successes in that area already.

From Mr. Taniya, in Singapore, the government does the matching funds to funds, VCs once they could raise fund from investors. And, if the invested companies became successful, the fund could buy it back as a bond with a 10% rate. For unsuccessful cases, these remain as equity. For computer science, there are not enough engineers in Japan. There are many computer science engineers in India and Israel, so that it may be interesting to collaborate with them.

In the UK and Singapore, sandboxes have been introduced, but there are very few people who actually understand how the sandbox works. That is what Mr. Yamaoka indicated. He pointed out to use the word “sandbox” in an effective manner in promotion, and make people know that Tokyo is actively attracting FinTech.

From Sir Roger Gifford, we talked about establishing Tokyo version of Lord Mayor.

About how Tokyo is perceived as from overseas – Mr. Kindred has told us about termination issues in Japan, and in addition, for commercial banks in Japan, the Japanese finance market is heavily skewed towards commercial banks.

From Mr. Koll, in his lively presentation, he told that the Japanese financial institutions should take more pride in their businesses. The Japanese fund managers at banks are not aiming for world number one, and it is a very strict opinion.

So next, we would like to go on and proceed to material number 3. It describes the relationship of the immediate measures, based on interviews made with Advisory Panel's members. Please look at material number 3, page 4 in the English materials. Mr. Aritomo will be explaining this for us.

Keiichi Aritomo: Thank you Chairman Saito for the summary from the last meeting. At the last meeting, we have shared our advisory councils' collective view on Tokyo strengths, geopolitical opportunities, lessons learned from the past and the measures that we should be employing. We discussed quite extensively on these topics. There are keywords that have come up from these discussions. There are words that are known as jargons that probably the general public is not very familiar with.

For example, investment education, regulatory sandbox, taxation system and emerging manager programs, these are words that are generally not used by the public and the Tokyo version of Mayor and the infrastructure investment as Asia's hub, FinTech, robotics, block chain, these are jargon rich and our issues and discussions at one glance looks a little too scattered and random.

However, what we need to avoid is to analyze these jargons one by one based on overseas case examples. If this becomes a self-directed study, and likely to be a waste of time.

So, what we need to do here is to take a step back and look at the investment value chain and see what measures – how these different measures are interrelated. This is what the diagram depicts.

The investment value chain, there are four domain. The first domain is the Japanese/Tokyo residents. Secondly, the financial institutions, financial services companies and the third domain is comprised of growth areas as for investments, and the fourth domain is the supporting growth platforms of this value chain.

Up to now, as all the committee members recommended measures can be mapped to one of these four domains. As far as investment education is concerned, to increase the financial literacy of the general public should be mapped to the first domain. As far as finance services development is concerned, i.e., the second domain, we would need to develop independent venture capital and financial firms as well as to develop finance professionals, and also launch emerging manager development programs (EMP). I believe EMP will be further explained shortly by Mr. Iwama.

And investment education will be explained by Mr. Sayama. In addition, we would like to look at how to increase the growth areas for investments and as has been mentioned earlier by Mr. Kariyazono, we would have to look at the independent venture capitals and private equity firms in order to broaden the functions and roles of financial services.

For Japan, for Tokyo to become the hub of the Asian regional area as well as to activate the Asian bond markets, as a platform (i.e., the 4th domain), we would need to look at the national strategic zone and as part of it, reviewing the taxation system is important and we should look at the taxation system as one part of the platform and we consider establishment of regulatory sandbox and to enhance overseas promotional activities. We also have to look at improving the living environment and providing English services for public administration. These are all part of the growth platform.

With this holistic understanding of the investment value chain, we would like Mr. Suda, Mr. Sayama would be presenting as experts of each of their specialized areas.

Atsushi Saito: So we would like to first begin from Mr. Suda about the taxation scheme, and we would like to do free discussions after the presentation.

Toru Suda: First of all, I would like to look at one observation of the taxation scheme. The first page shows the comments that I have raised previously. So this is probably self-explanatory, and I would just like to emphasize that taxes are multidimensional, as already explained by Mr. Saito. What looks visible is the tax rate because it's easy to compare, and secondly, when we looked at the effective corporate tax rate, what is Japan's corporate tax rate compared to other countries? Or before that, I would like to talk about the world tax rates as chart number 1.

Japan's effective corporate income tax rate is, how high or how low compared to other countries? In Japan, currently, the tax rate is 29.97%. In the US, depending on the state, they have different state taxes. But for California, it is 40.57%. If you just look at New York City, 43.83% would be the effective corporate tax rate. The UK is 20%, France is 33.33%, Germany is 29.72%, Singapore is 17 % and Hong Kong 16.5%. So, Japan's effective corporate income tax rate is comparable to Germany's but higher compared to the UK. This chart indicates where Japan positions. I've also shown other tax rates just for references.

When we look into the effective corporate income tax rates composition, first, currently the national corporate income tax rate begins from 23.4%, followed by local corporate income tax 4.4% which is levied against the amount of national corporate tax. Accordingly, it's about 1% of the taxable income. There are other taxes as you can see below. Then based on the effective tax rate equation outside the chart, it equates to about 29.97%.

The effective corporate income tax rate, as you can see at the bottom, shows the formula. Total tax rates has to be divided by enterprise tax rates (excess tax rate) plus standard tax rate times special local corporate tax rate. The reason why this is done is because when you calculate the taxable income of national corporate income tax, they can be expense at the time of payments and that is the reason why this factor is divided.

There happen many changes to the tax rate and this is reducing. So, the current standard effective corporate income tax rate is 29.97%. For Tokyo's 23 wards, this goes up to 30.86% and as for a reference, Osaka City is 30.81% because of the different enterprise tax rates among the cities. Therefore, they are slightly higher than the standard tax rate.

The effective tax rate is 29.97% and the national tax rate is 26.56% in total. The difference is 3.4%.

Therefore, if we set local tax rate at 0, national government will be levying 26.56% on the reduced amount of local taxes. So, if the local government provides subsidies, 26.56% of it will be levied by the national government. Therefore, if the TMG exempts certain taxes for corporations, that does not mean that the entire amount of the exemption are benefit to the corporation because one-fourth of it is levied as a national tax.

So in order and considering these measures, because of this reality, what can be done? According to the local tax act Article 6, the local bodies have discretion for taxes locally, and they can levy tax in a non-uniform manner. By introducing a non-uniform taxation system, certain industries or certain businesses can be tax exempt or tax can be reduced. I believe such measures are possible.

As an example, the Osaka's growth special zone taxation system. For business related to new energy systems or life sciences, the real estate acquisition tax and prefectural income taxes are exempt for the maximum of 5 years and subsequently 5 years, half of the prefectural income taxes. Also Fukuoka has a special zone, a global special zone system and they have similar tax reduction measures. So, it is possible to introduce preferential tax treatment for certain businesses.

Also, subsidies can be given to corporation but because there is a national tax on the subsidies, although local taxes might be 0, they are still taxed on a national basis.

So, there should be a way, for example, for venture capital funds.

If equity investment can be supplied rather than subsidies, then these would not be taxed. So, there could be other revitalization efforts and different investments made to venture capitals, PE funds, etc.

So in addition to subsidies, if the local governments can supply equity, then these taxes can be exempted.

It is also important to enhance international schools by the Tokyo Metropolitan Government, and to reduce the burden of the parents, and the Japanese students can also go to international schools to increase their exposure as part of international education and can also upbringing human resources.

As I have previously mentioned, only the efforts by the Tokyo Metropolitan government is not sufficient. There are national measures also need to be undertaken. First of all, the tax rates need to be reduced for corporations. Even though local tax rate is 0, that would not be sufficient. National tax rates also need to be reduced, or need to be considered. While I think this is very difficult, these needs to be considered just as Governor Koike has mentioned, as Mr. President Trump was mentioning about decreasing the corporate tax rate to 15% (the republican party is 20 %.).

If there are other countries with lower tax rates, this will decrease Japan's competitiveness. So reducing tax rates is important. Also as we have discussed in the National Strategic Zone, tax rates should also be reduced in the special zones.

As far as the tax base is concerned, it is important to enhance the advanced tax ruling system.

I am repeating myself here that the predictability of tax regime is extremely important. The uncertainty whether or not a certain new transaction is taxable and a clear answer is not able to obtain before the transaction is one of country risk for taxpayers.

And if we go into the details, computer software development expenses, there should be an investment tax credit, and tax credit on R&D expenses for developing new financial products is necessary, and also, this was included in the survey.

It is also important to change the resident criteria for income taxes. According to the Income Tax law, the definition of non-permanent residents has changed. If they reside more than 5 years continuously in Japan, they will become a permanent resident. Then, worldwide income will be taxed in Japan. The 5

years rule has been changed, if the residency extends more than 5 years during the past 10 years, then they will be deemed as a permanent resident and worldwide income taxation will be applied.

On the other hand, the definition of the foreign permanent resident and taxable estate under the Inheritance Tax Law has been changed to an heir and inheritees who had a home in Japan less than 10 years during the 15 years before the death of the heir (“temporary resident”) is taxed only on estate located in Japan.

If we look at the estate tax in the US, it is based on the intention if the heir would like to remain in the US permanently or not, and if he/she had an intention to remain in the US, estate taxes would be levied on its entire estate. For those who do not intend to be in the US permanently, then only estate located in the US will be taxed.

The heir’s intention is supported by where the drivers’ license has been issued, where the Social Security Number has been issued, where the family’s cemetery is located, the ties to the society, etcetera. Various criteria are used to understand the intent of permanent residency in the US, and based on that estate taxes will be imposed.

The definition of resident under US federal estate tax differs from the income tax. The resident criteria is more strict in Japan based on the number of days and if this exceeds more than 10 years, all the estate will be taxed in Japan.

Also, for non-resident, the duty of reporting assets located outside Japan is required. This has to do with income tax. For non-permanent residents, domestic source income and foreign source income remitted to Japan will be taxed in Japan. So if assets outside of Japan is sold outside of Japan and not remitted, it should not be taxed in Japan. However, the rule requires non-permanent residents to report assets located outside Japan.

So Japan is investigating assets locating out of Japanese tax jurisdiction, it seems quite in excess.

And tax exemption or reduction for new enterprises should be considered. Especially in the future, it is important to develop new businesses and tax reduction and exemption should be considered for them.

As for investors, it is important to look into the concept of unified taxation on financial income. Since HCA 28 (2016), the tax system is reverse of this concept. Capital gain /loss on listed securities and un-listed securities are separated and not able to off-set with each category of gain and loss. So for an individual angel investor, if he/she invests in un-listed stocks of ventures and incurred losses, the loss is not able to offset with his capital gain on listed securities, if he/she could utilize the loss for gains on listed securities, he would have some rescue.

However, they cannot do that. So, the each category of losses incurred can be carried forward for 3 years and they can only be set off against gains of each category. Therefore, the new tax treatment counters the notion of unified taxation on financial income.

For incomes tax purpose, Japan divides income into 10 groups and certain groups of profit and loss can be aggregated and other cannot, and it is extremely complex. I am a little confused as to which groups can be aggregated and which groups cannot.

So, why does Japan not allow the aggregation of profit and loss for financial losses? This stems from the fact that investment should be something that is done under own responsibility and account. So if someone fails in investments and they should be able to set it off against their other business income or salary income. Then, there is some buffer for the individual.

However, I am not proposing that this should be unified tax rate, but I believe it is important to consider these complexities.

Also, it is also important to look at the income tax deduction system for hiring housekeepers. The Japanese government would like more women to work and it is important to be able to have a tax deduction system for domestic help and nannies and other people who would be taking care of the home. So people, who will be able to hire such labor, are probably high-income people but these people

are highly skilled and it is important to be able to allow these highly-skilled women to be able to work and not to be confined at the homes.

Also, it is important to avoid double taxation on inheritance tax as we have already mentioned as for non-residents.

It is totally different from the non-resident tax issues. The Japanese inheritance tax system is unique that the taxable amount of estate is calculated based on the current value at the time of inheritance. But the acquisition cost of properties inherited by inheritees should be the acquisition cost of the heir for income tax purposes.

If it is not possible to find out what the acquisition cost of heir was a rule that 5% of sales amount of properties can be used for the cost of the property. So if somebody sells the assets at the taxed value when inherited of 105 and of which heir's cost are unknown, then the capital gain is approximately 100 for income tax purposes. Therefore, there is a double taxation of inheritance tax and income tax here. It is important to also think about changing this from the asset building perspective of individuals.

In addition, beneficiaries (i.e. investors) of investment trust are taxed when the trust distributes its profit to the beneficiaries by cash. Un-realized losses in the investment trusts are not allocable to the beneficiaries. So, we would like to consider pass-through investment trusts.

And lastly, when we looked at the limited partnership rules, the 25% and 5% rule is applied by each partner level under the tax reform of HCA 21(2009). Therefore, if a foreign partner who has less than 25% of profit interest in a partnership which holds 100% of a Japanese corporation and realized capital gain from the sales of the stocks is not taxed in Japan on the allocated gain. Under the HCA 17(2005) tax reform, the rule was applied by partnership level. I really do not understand the logic behind this change. The HCA 17 (2005) reform was slightly strange from my perspective.

So, measures need to be thought. These are my own proposals.

Atsushi Saito: I am sorry. We are running out of time. I am sorry to cut you here. Taxes are time-consuming discussions. So please take a look at how much time you have when you make the presentations, which you can see at the top. So we would like to continue on to the next area, about education and HR from Mr. Sayama.

Nobuo Sayama: About education and HRD, human resources, allow me to give you some presentation.

Firstly, we need to check what we want to be in the final analysis from the human resources perspective. Here it says population of superior financial services talent, both Japanese and the non-Japanese; first, become number one in Asia and we would like to be globally number one.

Also about funds, about the amount of funds both inside and outside Japan, first become number one in Asia and then become number globally, we would like to be number one. This is the target image. Are we okay?

Next about issues to be addressed, talent and funds in these two categories. First, about talent. Create rich flow of talent. About the Japanese first, we need to develop the Japanese superior talent and we also have to make sure that they would be retained as for the non-Japanese so that we can have the incoming flow of superior talent.

We may have to do that and we also have to need to retain them. That will be the target. About the funds, I am not going to dwell on this but in terms of the direction develop strong flows of funds. About the domestic funds, dormant funds, we need to make sure that there is a liquidity of them. Also the overseas funds, when they bring them to Japan or even when they are outside of Japan, then to manage them we need to take initiative in moving those funds.

Going forward, I would like to just focus on talent, human resources. Japanese and non-Japanese, we need to look at them separately. First about Japanese, we need to foster them and retain them. Fostering, we need education; high-level education needs to be improved. Including the graduate school for those

people who are already working in the society, especially they improve them in the area of finance. Not just limited to domestic education; we want people to go abroad and to encourage them to go abroad and study. Measures need to be taken.

For retention, those new talents need to be treated appropriately. I suppose in Japan, if they are working in Japan, are they appraised properly? That appraisal is important. Going to fund-raising, for instance. Those pension companies, we visit those pension companies. I would not say all of them but many pension funds, whether they are going to be making investment or not. They first talk to, for instance, trust company, and then make decisions. They do not make judgments themselves.

They want to get a seal of approval from other entities and if that continues, then as an individual, one is not appraised and one cannot expect growth. In the case of overseas, it is the manager.

They are appraised if you are competent, then you are falling into the scope of executive search. There is a kind of system to encourage those highly competent people. We do not have that kind of system. If we do not have that appraisal system, those highly competent people will move elsewhere, outside of Japan.

Then non-Japanese, we need the inflow of those non-Japanese people and we also need to retain them. For us to have them, we need to establish a gathering place for globally advanced researchers, highly competent people. Also, we need to increase number of overseas students for higher education and we need to accept them more. Also, we need to increase the number of companies hiring those superior talents, for retention. Appropriate treatment of superior talent, because the competent people need to be appraised accordingly, to give a proper treatment and then creating a comfortable living environment.

Getting into a little bit more detail, talent, fostering human resources, highly-competent people, what should we do? About improving domestic higher education, we need to improve the undergraduate and graduate studies. Increase number of foreign professors, faculty members, I think that is essential. For international students, we need to again to promote studying abroad.

If you look at the overseas graduate schools, they need to pay huge amounts of money in tuition. You cannot really go there unless you have money. If you are out of job, you cannot simply afford to do so. If you have enough money, go abroad; and then, if you do not have money, you simply cannot do even if you are talented enough. So we need to have a better scholarship, benefits type of scholarship.

If Tokyo wants to become internationally number one city, then on this particular financial area, providing benefits-type scholarship is one measure. Companies, especially financial institutions should study this kind of measure, benefits type of scholarships.

From the viewpoint of retention, I already talked about the appropriate appraisal and the treatment of superior talent is necessary. By group or by individuals, who or which group is excellent. It is clear only by the unit of company.

So if you see in Japan, sometimes highly-competent people may not be visible. So even if it is just a group, if a certain performance is disclosed, then only the excellent people will survive. So the strong people, if the high performers are evaluated as such, they will stay, and if they are not evaluated highly, they will just leave Japan. So, visibility is necessary. So if you could see that, that would be good.

Corporate tax and income tax rate should be slashed. As for the corporate tax, 30% number was mentioned before. Just, for instance, in all the sectors, if the corporate tax is to be slashed, reduced, then the tax revenue has to be increased elsewhere. If you want to just invite a manufacturer, it will be difficult because you have to have people and have to make a plant, but in the finance industry, it does not require place. It is really about people.

Relatively easily, you should be able to invite people from abroad in finance. Simply because of lower corporate tax rate, I think we can accelerate the flow of people from abroad to Japan. As was mentioned, UK 20%, Singapore 17%, Hong Kong 16.5%. If we are to compete against those cities, those countries, more than even just, for instance, 15% or 20% is a possibility. If you just look at it, tax revenues might decline. You might be worried, but the denominator will increase in that finance business.

Suppose that you had revenues of 100, along with the flow of people, with 100, it is 30%, the rate, then 30 is the actual result. But if you have 1000 people, and even it is 20%, the result is 200. So, when there is a certain amount of money, it is not how much tax you can get. If the corporate tax in this particular area of finance where there is mobility, you can increase the denominator, then the tax revenues will undoubtedly increase. That is my belief.

Then about the non-Japanese, inflow and retention of non-Japanese people. As for the in-flow, and as Mr. Koll mentioned, there was a Kyoto Award. This is something second only to Nobel Prize, but Tokyo Award has been – setting aside whether this is specifically focused on finance or not, but since we are talking about finance, this should be something that can be comparable to Nobel Prize in terms of our awardees, so that the competent people will look at Japan. If they look at Japan, then that means that they are more likely to come to Tokyo and can accelerate the inflow of such highly-competent persons.

More international students in the higher education, I mentioned that before, might take time including the elementary education by having more non-Japanese. Since childhood, they have become familiar about Japan. That is going to have a very positive effect. By having those non-Japanese people, Japanese people's perception of non-Japanese people will change at graduate schools. People tend to focus on graduate schools but including elementary education by having those non-Japanese people, I think the mindset of Japanese people is going to change. Having those non-Japanese people, we need to have some benefits, advantages; certain kind of the subsidies must be improved.

Highly competent companies that can hire those super-talents, we need to increase the number of such companies. We need to have a system where the global competition is possible. Lowering the corporate tax rate by having a base in Japan, just for instance. I am not saying the 50% is good but just suppose if the corporate tax rate is 15% or 10%, merely by this measure, quite a number of entities will come back to Tokyo, then the denominator is going to be quite big. So, the companies that will be working will increase with more people. Here, it says PE issue, Permanent Establishment issue. Those entities without – people without PE, Permanent – it has to increase 25%. This is really an inconvenient system.

For instance, from overseas investors, they want to have the co-investment in our funds. Even if they raise their hand, they are interested in this, they cannot go over 25%, but because of foreign funds, there are so many participants, investors and they usually come in bracket. So if you look at it individually, it is not 25% but if someone wants to make a huge contribution, it cannot exceed 25%. So probably, regarding the objective of this system, you are making a lot of money.

Then if you are making a lot of money, you should pay a certain amount of tax, but if you have 100, making investment it can grow to 1000, then that's the opportunity we have, 100 becomes 1000, and then they will stay here in Japan. Then as for the profit portion, it is a fund, without tax, they will go overseas, that is the global practice. Yes, they will flow overseas but if we say no, then this opportunity of making 100 to 1000 will be gone. So just looking at profit and profit first, and then you have to pay some tax, that is how the system was begun, but we need to review this.

Retention of non-Japanese people, especially these highly-competent people, we need to hire those talented people but this is very difficult to pass judgment on this, whether they are competent or not, but when we want to have those highly-skilled professionals, then when they have certain operations here, the corporate tax rate can be slashed, comfortable living environment, just like Hong Kong, Singapore, the UK and western countries. As individual, the individual, unless they can pay lower taxes as an individual, we cannot expect to see high retention.

So far, I have been just focusing on human resources on Japanese and non-Japanese. I shared with you the major direction. So individually, what should be done? I think there are a great number of measures. But having this direction and then reaching an agreement or consensus, the individual matters can be addressed.

Page 19 shows the issues. Consolidation for Execution: First, we have to look at the privatization and show results as early as possible. Some time consuming issues, some TMG can independently execute, some needs to be done by the central government. We need to look at that. Issues that can be executed simultaneously do them, and meeting necessary requirements early for execution is necessary. Do we

need to require system change or is it something that is going to take a lot of time, such as educational training? That also needs to be taken into consideration.

Yesterday, Professor Hirotaka Takeuchi from Harvard visited us and as reference about the Global Academy– sorry, there is Japanese version only, and we do not have the English version, but what Professor Takeuchi talked about is that if you look at the current Japanese, there is the TOEFL and the English proficiency test but it is Galapagos. The English that took long will not do.

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Communication, in terms of communications, TOEFL, critical thinking, GMAT, and for presentation capabilities and specialized skills, for instance finance have to evaluate like Class I, Class II, Class III, Class IV, creating an organization that certifies that proficiency, started last summer, and they are likely to start this.

It is just as an example. This is the takers of those test campaign for finance.

TMG perhaps can be involved for the finance portion. In other words, they are certifying the global human resources finance by TMG having a stake, getting involved on human resources development, global resources development, that the fact that Tohoku is focusing on can be communicated and you will be able to receive, TMG can receive a lot of information.

Page 27, 26 – I have used all of my allocated time but if you look at these pages, how Japanese people not really globally active, or how there is a deficiency or lack of the global human resources in Japan is shown. We would need to look at the direction and we need to achieve results as soon as possible.

Thank you.

Atsushi Saito: Now, over to Mr. Iwama about EMP.

Yoichiro Iwama: I would like to introduce the development of emerging managers program. If you could go on to the next page, the page 29. This shows the table of contents today. First, I would like to mention the report of the working group held in last summer on asset management industry. The report identifies several subjects JIAA should make further research and find solutions. These are issues that we believe as an industry important to address.

If you can take a look at the bottom on page 29, you can see the “Promote entry of new asset management companies” as one of the major subjects to be pursued. So, we, JIAA, started a research on the EMP and my presentation today is something like a mid-term report of that. The working group report, in order to enhance our investment skills and capabilities, pointed out various issues. As Mr. Sayama has mentioned, human resource development is one of the greatest issues as to attract highly-skilled fresh professionals and it can be effective providing seed money for them. Then, it is crucial to watch closely how these fledgling managers develop their professional skill further as intended. EMP from this perspective can be considered as one of effective platforms. We can say it is a venture fund established by asset owners to incubate new asset managers.

This system has started in the United States which is one of the most developed countries for asset management industry. It is said, the scheme has been developed in the background as the US is multi ethnic country and the EMP has been invented to give equal opportunity for minority ethnic groups.

At the same time, for the asset management industry, diversity in talents is seemed as one of key drivers. Therefore, it is estimated important and effective to provide seed money for the potential hopeful startup managers by EMP.

From that perspective, although, Japan is not a heterogeneous country, we think it would have some good effect for nurturing emerging managers under the similar program as EMP. So we are currently studying this program from that perspective. As you can see at the bottom of page 31, even in Japan, introducing EMP by asset owners should be a meaningful idea.

The next page shows examples of EMPs in the US. You can see many exemplary public pension funds have their own EMPs with long historical records. In addition to this, there are many endowments of schools or foundations which have their own active EMPs which show good performance. From that vein, large scale, highly skilled asset owners which have long-term investment horizons can actually initiate and implement this program, and foster innovative new emerging managers. Therefore, if this can also be replicated in Japan, we think that it could be quite functional in our country as well.

On the next slide, I would like to show the CalPERS' EMP as a typical example. This is constructed as follows, firstly deciding total size of seed money fund, secondly fixing asset classes to be invested, then select candidate managers for each asset class. After deciding mandate, they provide seed money to each asset manager. As you can see in the slide, CalPERS allocate about US \$75 to \$150 million, to each manager according to the mandate given. CalPERS is also aiming to secure risk-adjusted adequate investment returns according to specific mandate given to each selected manager and create new investment opportunity, and also to develop new talents.

However, after having been operating the program for quite some time, it happens that emerging managers of EMP have not necessarily been able to generate excess returns against the benchmark. From this perspective, when we look at history, CalPERS recognized that it needs to review the past and adjusted to create new 5 year plan in 2012. They are now running new 5 year plan.

As you can see in the slide, they provide mandates to each asset manager. In addition, they also provide mandates to hedge fund managers targeting absolute returns, and to other alternative types of mandates, e.g. PE, real estate, etc. CalPERS has a well-diversified EMP.

Looking at the next slide, this is the history of CalPERS EMP. Please take a look at this when you have time. It has quite a history, as you can see. On August 1st, 2012, they had reviewed their EMP Program. They had introduced the Emerging Manager 5-Year Plan which is currently in effect.

This Plan's overview is provided in the next slide. After precise review and analysis of past performance of EMP, they revised the plan to enhance its efficiency. CalPERS organized a special

team for this project. When we look at the contents of this plan, it includes the way of better management of emerging manager as well as the better support provided to EMPs – and they picked up 10 focal points to be followed up every year. The results should be reported to the California State Legislature by law.

The report shows, in the next slide, the detailed comparison analysis with other states' EMPs.

And the setting up of a new Transition Manager Program added to the EMP. Once the EMP is developed, they can be admitted to the Transition Manager Program, and once they show a good track record as a transition manager, they will then be selected as a regular investment manager for CalPERS, and this process has been going on for the last several years.

Going back to the materials on page 4, New York State Common Retirement Fund, I know New York is a sister city of Tokyo, has also adopted the EMP Program in 1994. The main purpose of adopting EMP program is to contribute to increase total fund value, and diversify asset class, and give opportunity for women or minority groups. As of March 2016, AUM of EMP is \$5.6 billion.

However, only selecting qualified emerging managers and give them seed money does not guarantee the success of EMP, there should be a professional support to lead them to the success. In NYS case, several program partners are invited to nurture and assess each emerging manager under EMP. They are closely watching more than 20 emerging managers at present.

This information of CalPERS and New York State Common Retirement Fund is being disclosed in their websites. We would like to continue to investigate this area and we find out what can be implemented in Japan. Just bringing and replicating that in Japan is probably not sufficient and workable. We would like to understand how we can appropriately implement this in Japan in order to activate and stimulate the innovation of the asset management industry in Japan. We believe it is extremely important and is a very serious undertaking for us. This was my report at present. Thank you very much.

Atsushi Saito: Thanks to everybody, we are on time. We would like to now go into the Q&A session. We will be ending our session by 5:55 p.m. Tokyo time.

Mr. Kariyazono wanted to say something. Within 5 minutes, please. Mr. Kariyazono, the floor is yours.

Soichi Kariyazono: Thank you so much for giving me this opportunity. As I listened to Mr. Iwama's presentation, I remember 20 years ago when we started the fund, Mr. Iwama, just like EMP in our first fund to you, you made investment and on the second fund, the US State and concerning US companies and also the university's fund, although this was a Japanese fund.

I think we were pioneer of the EMP Program. They made investment in our funds and we have grown thanks to you. This EMP Program is of great importance because it takes time to develop those front managers. It requires a lot of experience, so I hope that there is going to be more of the studying of this and with a little power we have as someone, who is experienced; we would like to do our own bit. As for what Governor said at the outset, Tokyo Business opening the One-Stop Center, as a VC, we are very grateful, thank you so much for your activities.

Now starting business, not just for Japanese, but there are a few business startups by non-Japanese people. This has been a real issue for us, so the solution of Tokyo One-Stop Center, I believe this is going to be very powerful. I do not know whether this is serendipity or just a coincidence. Akasaka and Shibuya, you opened this office and the satellite office. Shibuya, as you know, it used to be of big value because net companies start business there.

In Akasaka, this is really the cluster of Japan Venture Capital Association, they moved to Akasaka. And among the 60 member companies, 10 are located in Akasaka. So for business startups, it is very important as well I believe and then regarding this one-stop center establishment, I just would like to take this opportunity to thank you so much for your support.

Why I wanted to have the floor? In Akasaka, there is a cluster of VCs, venture capitals of big value. This used to be the cluster of venture companies. Having this cluster is important, in my opinion, and the tax incentives, human resources incentives and Professor Sayama, and Mr. Suda, as you mentioned, with these incentives, then this Business opening One-Step Center received more and more companies being starting, then we need to have a cluster.

Ecosystem, the key to ecosystem is really the cluster. Just like the Avalon Silicon Valley, there is a cluster and there is a Sand Hill road. In that sense, the Silicon Valley, venture capitals for ventures have clusters there. From individual cluster, as well as I said at the previous session, in the center of the city of venture, venture capitals and major companies and also policy makers and the academia, the researchers in one building or in one zone, having a cluster for all these different entities, such projects have enjoyed a lot of success in various different cities. Cambridge, Boston, right next to the MIT, CIC or London in finance, Level 39.

Regarding those participants in the ecosystem having clusters of them, the mutual interaction will be stimulated, and then for those, so that there will be more innovation, having certain kind of systems to trigger them for having more clusters and then having these organizations in these areas, that's the key to innovation as some researchers have said.

Governor said that from Kabutocho to the Otemachi, having a Japan's version of Wall Street. I think this is another example of having clusters. Boston, Cambridge, for example, there are 1000 venture capitals. In Boston, all the 1000 venture capital companies and surrounding them in case of Facebook, Apple, such companies, research institutes are all located in that particular area creating a lot of innovation. So, in that sense, Tokyo's version of Wall Street and with Tokyo, the coming clusters like Cambridge here in Tokyo of innovation.

I hope that you will think about that and extend us support. Thank you.

Atsushi Saito: Next, we would like to receive active questions or comments from everyone around the table please. Mr. Makino please.

Jiro Makino: So Mr. Suda has discussed about the taxation system and I felt as if I was in a hearing session, at a tax session. I don't want to mention specifics but I was thinking that in the US, they are trying to reduce corporate tax rates, so Japan probably would also need to consider that in order to maintain Japan's competitiveness of the firms but when it comes to Tokyo, this is not for making Tokyo the global financial center, but I think it's something that needs to be determined how Japan is positioned against the other countries in the world.

Also Mr. Suda, you mentioned about the intention role rather than based on the number of days resided. This is also something that is discussed. The number of days is probably easier and more objective, and there are different text regimes in other countries.

And we are talking about the aggregation of profit and loss for financial income and other income, and there would be some imbalance for both losses and for profits. If aggregation were to be allowed, it should be applicable for both losses and profits. In addition, as for inheritance tax, when we look at the income tax, the double taxation for inheritance tax, this has been a historical issue. According to the Supreme Court, there are cases ruling that this is reasonable. So each of the specific issue, that would be very time consuming and this may be very difficult to actualize for the Global Financial City, Tokyo's process. I believe it might be very difficult to materialize.

This is the first time to mention different opinions. So it is a very good idea to express your opinions, but what we need to discuss and consider here is what can actually be realized. So from that standpoint, I believe that we should be more specific. We need to go into more specific discussions, as I have previously mentioned. For example, R&D expenses, Mr. Suda has also mentioned this before. For service industries, from 2017, a big data is accumulated or information data is analyzed and these are designed R&D expenses.

For such expenses will be applicable for such purposes and if we can think about how this can be used or if we can come up with other specific criteria, how to use these R&D expenses to tax credit, I think that will be better. I think we would like to go into more specifics as for both income and corporate tax

rate reductions, as Mr. Sayama has mentioned. Just reducing for the financial services may be a little difficult from the public perspective if only aimed at the financial service industries. This may be difficult for the public to accept.

As our chair has mentioned in our previous meeting, I believe it is important to discuss specific issues that would show results.

Atsushi Saito: Tax discussions probably would need further scrutiny. The important point is we need to look at, if Japan is causing some kind of inconvenience, and from an international standpoint, whether Japan's tax rules are fair with other tax rules in the world. And, if it is inconvenient, then we should make it closer to the international level and propose such measures.

So, for inheritance tax, as Mr. Kindred has mentioned earlier, perhaps he might want to mention something.

Jonathan B. Kindred: I should start by commenting how pleased I am that all of the speakers spoke so strongly about the desirability of getting more foreign talent coming to work in the financial services business in Tokyo. I think I am somewhat qualified to speak about this issue. My company employs about 1,100 people in Tokyo and they come from 37 different countries. About 80% of the workforce is Japanese and just over 40% are women.

I can assure Makino-san that the inheritance tax issue is a very important matter for many foreigners when considering coming to Japan. There is a change that is currently being contemplated but this change only addresses part of the problem. Foreigners who have been in Japan for more than ten years out of the last 15 years will still be taxed on all their global assets and this appears completely inconsistent with other major jurisdictions around the world.

We suggest that there is a simple way to improve this situation. Changes are being planned to the inheritance tax rules right now and these changes could improve the situation and would have an

immediate impact. Many employers of foreign workers in Japan are faced with the dilemma of top quality talent telling them they do not want to come to Japan because of the inheritance tax risk.

Employers can offset or mitigate that risk for their employees but then this would be an additional cost to employers, as they would have to buy life insurance to cover the exposure. It is an unnecessary burden on foreign employers, any employers, our Japanese colleagues as well I am sure face the same difficulty in bringing foreigners here. But I would also say beyond the inheritance tax there is the level of personal income tax rates. The top marginal rate for our employees and many people in financial services in Tokyo is 55%. That is very high. There really is not any other jurisdiction in the world that is that high.

But what I would say, and I mentioned this in my presentation 2 weeks ago, we would not necessarily advocate that this has to change. We think that Tokyo is a great city. Tokyo has fantastic services, great infrastructure and I think it's only reasonable and fair, and what we hear from our people is that while they're working here and they're enjoying the high quality of life in Tokyo, they should be paying their fair share for it. But these other issues, like inheritance tax being claimed on global estates even after people leave Japan to go back to their home country is completely different than in other jurisdictions around the world and is a real burden.

Let me mention the overseas asset reporting, which Suda-san referred to and I mentioned 2 weeks ago.

A foreigner working in Japan has to list every single asset they own overseas that is worth above ¥100,000. This seems crazy, but that is the law and it should be changed. It should also be simplified. So, we think that there are easy things that can be done on these points.

Atsushi Saito: Mr. Koll, okay.

Jesper Koll: Just very quickly, just to second the point that Mr. Kindred has made. Taxes, personal income taxes are not the issue. You know, that's any employee that you talk to, I think, for an incentive

perspective, Tokyo is a great place, Tokyo works, Manhattan doesn't work, so you know, you pay for what you get. That is not the issue. But this obstacle of the inheritance tax, right?

I mean specifically it seems to be designed to actually deter global talent from coming to Japan and this is going to be a big problem not just for finance, and I really need to emphasize this point because anybody who is clever in biotechnology, anybody who is clever in FinTech, anybody who is clever in anything, including international sports, will not come to Japan on this rule, and remember, it is a very, very competitive world out there, the A Team, and you talk about how do I attract talent, how do I attract the top talent here.

The top talent can go anywhere in the world. So you need to be special here and putting a rule like this Inheritance Tax Rule in is just absurd, particularly from a macroeconomic perspective. I like the Ministry of Finance. I actually like paying my taxes, but look at the tax revenues. The inheritance tax is not even 1.5% of total tax revenues. So, what is the fuss all about?

Atsushi Saito: These discussions can go forever. The basic issue here is as following. The reason why Japan government actually changed the inheritance tax is, the government wanted to stop the Japanese nationals from avoiding inheritance tax. This just happened to have adverse effects on foreign nationals where the intent was to stop the Japanese.

It has been said that Japan's tax is better than that of France. However, later it revealed that France has tax treaties with 36 countries, which means France probably has a better tax than Japan does. Japan has a tax treaty only with the United States. So, Japan may not be better than France as previously mentioned.

The inheritance tax is an issue that exists in any country. Just like President Trump has been saying that, the US companies should not be operating outside of the country; it is natural for a government to think such way. On the other hand, what we need is rules of international standards. Even after leaving the country, when one dies within 5 years, having to pay inheritance taxes is absurd. This is something that

we need to set a separate time to discuss because tax is important matter. We have about 30 minutes left now. Can we perhaps discuss about education and asset management?

Sir Roger Gifford: Thank you. I want to reinforce the point about inheritance tax and point out that countries like Sweden have eliminated inheritance tax. Now, with that benefit, many Swedes that used to live abroad, particularly around Europe, are now going back home, which has been a remarkable result. As I am sure you know, inheritance tax has long been a discussion in the United Kingdom as well and the government would like to abolish it but has not yet found a way of doing that.

On the education side, I will simply point out that the JET Program has been, it seems to me, remarkably successful. One of my sons undertook that for 2 years down in Kobe and met many bright young international students. He felt there was no real effort to keep them in Japan after they had completed the JET Program. He thought that was an opportunity that was possibly lost.

The only other point I would make is I was a bit uncertain about the emerging Manager Program in the States, which I think is more about social engineering than it is about developing an asset management market, but I may have misunderstood that. Thank you.

Atsushi Saito: Thank you very much. Professor Kawamoto, the floor is yours.

Yuko Kawamoto: Thank you. About education, as Dr. Sayama mentioned to encouraging studying abroad and the evaluation of asset managers must be done without fail. I strongly support them, but no matter how much the students have the overseas studying experience, unless the companies evaluate them, it is not going to be workable. So the labor market, the customs in Japan and also as Mr. Kindred said, the legal labor systems are really related to this. In the financial institutions, many homogenous people should become more professionals, that are the name of the game. But I think it is going to take some time.

So I support attracting top talent, but what I would expect for Tokyo is not unpopular, greedy financier, but, rather trying to attract those people, smart, global, trendy, FinTech, AI, robotics, venture

companies, areas, where the systems or the institutions are not so rigid. I think we would like to focus on those areas.

Atsushi Saito: About not evaluating students properly... Mr. Kunibe, any opinion on this issue?

Takeshi Kunibe: Thank you. In my personal view, Japanese financial institutions have been changing quite a lot. I myself studied abroad, and now our bank sends many employees to study abroad and in addition to that, we hire many non-Japanese students. Today, these efforts have become very meaningful for us. Regarding the hiring of foreign students, we hire about 10 to 20 people every year from both Japanese and overseas universities. I believe that when we pursue our global business, their talents are very promising. For example, foreign students who study in Japan can speak both Japanese and English on top of their local language.

So, how we best develop these non-Japanese and Japanese people and how we best utilize those human resources are the key to strengthen the competitive edge of financial institutions, I believe.

And taking this opportunity, I would like to say a few more words.

Mr. Aritomo compiled the interview-based survey. Although it indicates that there are a lot of issues, I believe that in order to address this important theme effectively, it is necessary for us to focus on some targeted areas. In my opinion, asset management business and FinTech are the promising areas.

At the first meeting, I said that I wanted to join this discussion to make Tokyo an Asian financial hub. Japanese households hold more than 1750 trillion yen in financial assets. And how best we can use them for more growth in Japan and Asia? That is the key. Then fostering domestic and foreign asset managers and then attracting foreign capital, foreign entities are necessary.

Recently, investment environment in Japan has been improved including the introduction of NISA, and on the part of financial institutions, business management centering on customers has been one of the most prioritized things we have been doing.

As for attracting the asset managers, Mr. Aritomo shared with us a lot of voices which we should address. And as for the EMP, that Mr. Iwama mentioned today, some part of Tokyo's funds can be used as seed money, if the EMP turns out to be very effective.

And as Professor Kawamoto said, FinTech has not been established yet in Asia. So, this is the area where Tokyo can take a lead in.

Looking at the Japanese financial institutions, they have been fast changing. I believe that FinTech has possibility of transforming the financial business. It is one of the major important themes for the entire Japan.

I believe that Japan has a potential to take a lead in this area. Japan already has sophisticated banking services and settlements systems that have taken firm root. And in Japan, almost all people have bank accounts. On the other hand, there are quite a number of people who cannot open banking accounts in other countries. This means Japan has a ground that existing financial institutions and FinTech companies can cooperate with, in other words, we can use FinTech effectively though open innovation to better serve customers.

And I am pretty sure Yamaoka-san, you know much better, in the area of open API (Application Programming Interface); some people say that Japan is quite advanced. To encourage open API, a revision of the banking law is underway, and the discussion on practical issues of open API is in progress at the Japanese Bankers Association.

In the FinTech area, Tokyo can play a pivotal role, I believe. In the case of SMBC, we strongly promote the collaboration with FinTech companies through various ways such as 'Hackathon'. You might have heard this, it is an abbreviate combination of 'Hack' and 'Marathon'. At 'Hackathon', people who have ideas and technologies gather together and develop applications/services in a short period of time. But inviting foreign people to such kind of events is not an easy task. I know that to invite foreign FinTech companies, Tokyo will start accelerator program from 2017. I believe that it can

be a great platform to gather foreign IT companies and will work as a major tool to market Tokyo as the international financial city.

Atsushi Saito: Thank you for constructive proposals. So, what TMG, Tokyo Metropolitan Government can do in the finance area. As an introduction, we have been talking about general issues but I guess it is time to discuss what Tokyo can do for each issue. Although Japanese financial institutions may look a little traditional from Ms. Kawamoto's viewpoint, as Mr. Kunibe has just mentioned, in the FinTech area, Japanese financial institutions are making swift and active effort. FinTech is closely related to payment, and how Tokyo can set it out to the world, and especially to Asia, we would like to hear about these matters from Mr. Yamaoka. Thank you very much.

Hiromi Yamaoka: First of all, we definitely have to make this reform to successful. I understand that there might be various tax issues. At the same time, if this forum were to change into a taxation panel, it would become more difficult to make the reform successful. As Prof. Kawamoto mentioned at the first meeting, for over twenty years there has been long-lasting discussions on how to develop Tokyo financial markets, and there have always been arguments for reducing tax rates for attracting financial entities. Nonetheless, public opinions did not generally support those arguments so far, since they sounded like just providing favorable tax treatment to wealthy financial people.

So, if we need to tackle tax issues we need to make full use of our brains. For example, Singapore is using a bit more articulated tactics, such as stimulating targeted areas of investments so as to effectively develop FinTech. Thus, we also need to make use of our brains to produce a well-designed strategy to stimulate targeted areas. Based on such efforts made by ourselves, we would also be able to assertively ask the national government to consider effective measures. Without our own efforts of creating well-targeted policies, it would be difficult to cause nation-wide changes.

Regarding the issues of education, which were mentioned by several members, I also fully understand the importance of education. At the same time, I believe that policy authorities should design their policies with assuming that people will act and behave rationally. For example, at the last meeting we

talked about the dominant share of bank deposits. I think that the Japanese people have tended to possess bank deposits mainly because of rational judgment, and not because of the lack of investment education.

Regarding the human resource issues of banks raised by Prof. Kawamoto, I checked the company ranking in terms of popularity among new university graduates. In 1986 when I graduated from university, the first ranker was Tokyo Marine, the second was Fuji Bank and the third was Sumitomo Bank. In 2017, the first ranker is MUFG, the second is Tokyo Marine and the third is SMFG. All these companies are financial institutions. As these rankings vividly illustrate, financial institutions have continuously been very popular among students, and university graduates really wish to work in them.

If banks were to become dinosaur industries, talented people would tend to spin-out. Nonetheless, since financial industries continue to be popular, high-skilled competent university graduates would not want to spin-out from the company they definitely wanted to enter. Under such environments, for these 25 years banks have not been able to fully allocate talented human resources to investment and asset management services, mainly because it has been difficult to expect high profitability in these services. Therefore, if investment environments change, I think talented human resources in banking industries would shift toward promising businesses rather quickly. So I do not particularly worry about the lack of talented human resources in Japan.

Then, how should we make use of talent in the context of FinTech? The idea of “Tokyo Award” has already raised, and I think it is important to illustrate “smart image”, as Prof. Kawamoto mentioned if we try to introduce such an award. For example, as the prize for talented winners, we could think about some benefit in terms of providing “fame”, through which they would be able to promote their ideas broadly. We could also think about providing the field for their businesses. As such, the prize is not necessarily limited to monetary rewards.

Some foreign countries are actually thinking about various rewards. For example, recently the Bank of England held a FinTech competition and asked various FinTech proposals. At this opportunity, the Bank of England raised various examples, such as making use of FinTech for the traceability of

agricultural products, for keeping medical records of patients and academic records of students. As the prizes, in addition to monetary rewards the Bank of England gave prize winners the opportunity to be immediately on recruiting process of the Bank.

I understand that unexpected and demanding proposals would annoy the staff of the Tokyo Metropolitan Government. Nonetheless, I would say that we will be able to use the communication tools suitable to TMG, such as “listening to the voices of people in Tokyo”. For example, we can ask the residents in Tokyo what kinds of financial services they want, or they find convenient. FinTech should be “smart” and close to the people’s daily life. Otherwise, FinTech would not be very popular.

Regarding tax issues, I believe it is important for us to produce well-articulated proposals, which are in line with our purposes of making Tokyo a global financial city. For example, regarding “open API” mentioned by Mr. Kunibe, we would be able to consider what we can do to stimulate the investment for open API, and to establish financial EDI. Moreover, in view of the 2020 Tokyo Olympic Games, we might also be able to consider what we can do to support the investments to facilitate the foreigners’ use of international debit cards in Tokyo. I reiterate that designing targeted and well-articulated proposals would be a key.

Atsushi Saito: Mr. Taniya next.

Mamoru Taniya: Thank you, I agree totally with Mr. Iwama and Mr. Kariyazono regarding Finance, and although I might be expected to speak about finance, I would rather like to speak about education. In Japan, compared to other Asian cities, what would be our strengths? It would be the safety and clean air etc., Many parents living in Asia have difficulties and challenges for children’s education in safer and healthier environment, and so establishing good international schools and helping parents, for example, making them to hire maid or babysitter more easily, will be very good way to attract foreign talents.

At the same time, it is very meaningful to give opportunities to study for talented students from developing countries. There are many people who have studied in the US and the UK from Asian

countries, have become fans of these countries because they could receive good educations. When we talk about FinTech, we know for sure that it will grow a lot in Asia. As Mr. Kunibe has mentioned, Japan has a wonderful infrastructure. But because we have a good infrastructure, sometimes it becomes more difficult to start from zero, whereas other developing countries have advantages to start evolutionary FinTech solution from ground zero.

So if we can attract talented children from developing countries, this could be very good solution in long run. These would be great opportunity for Japanese children or children from developed countries study together with those children from developing countries.

What I want to specifically propose is that for junior high and high school students from foreign countries, we should provide scholarships. There are very few countries, which provide scholarships to junior and high school students from foreign countries. I believe that it will make a lot of talented students from developing countries come to Japan, because there are not many scholarships for junior high and high school foreign students although there are some for college students. This is something, I believe, very effective. Please consider this.

Atsushi Saito: Thank you very much. As for Singapore, we here lot of same kind of story related to the MAS. Many fund managers have gone to Singapore and they manage Japanese equities there. Soon after a fund manager moved into Singapore with one's family, the MAS gave them a call. At first, they thought some kind of problem has happened. On the contrary, the person from the MAS asked them "Were you able to find school for your children?" This call really made them so impressed. A monetary authority caring about someone's family; this is how Singapore acts. If Tokyo is able to do something like Singapore, this will immensely change its image. How to provide services on person-to-person basis.

Lots of issues have been mentioned in this conference, and the Secretariat may need to consider and make some kind of decision about them. However, there are ways to attract foreign investors, and especially small investors without changing rules.

There are ways to provide good services, for example, create a platform for managers that have license for Discretionary Investment Management (DIM) in Tokyo. If there is platform, then foreign asset managers can come to Japan, and they can provide even small money. And, if that happens, many venture firms, who have exited Japan because they were not able to find the funds, will come back to Japan. If they come back to Japan, people will also come back together. In order to make this happen, establishing the platform is all that we need to do. No rules need to be changed. No tax needs to be changed. It is a form of relaxing restrictions.

We are running out of time but we were talking about the poor performance of investment trusts; I would like to ask if Mr. Inano has anything to say about that.

Kazutoshi Inano: Each investment trust performs differently. What is sometimes said is that there are very few good fund managers in Japan, but based on my experience, I think there are highly-skilled fund managers in Japan. The issue here is how we could have those highly-skilled managers more, with necessary support and opportunities to be offered for promising managers to stretch their capabilities. To address the issue, we may need to work on management system and support program.

As we have discussed today, which was very informative theory and practice need to advance together for the asset management business to further progress. In Japan, research on the theory is weak. It is necessary to combine education/research with business. People who actually do the asset management business need a stage to advance their capabilities with studies.

Graduate School of Finance, Accounting and Law, Waseda University used to provide the master program on Nihombashi campus, in which Professor Kawamoto participated. Many of my employees studied in this program in Nihombashi after their work, but that is no longer there. As the governor has mentioned about establishing Wall Street in the Kabutocho-Otemachi area, it would be great to set up such a place to study in this area, and therefore theory and practice would be more closely linked. Furthermore, while Waseda University provided only with the master degree program, it would be

better to have both master and doctorate programs. The cross appointment system should also be available, with which employees can both work and study at the same time.

The EMP is not philanthropic program but like an R&D investment. I think that we could enjoy first-mover advantage from this program. The source of added value from one investment strategy would not be inexhaustible. For example, if asset under management with small-cap equity investment strategy could not exceed ¥1 trillion, only the managers who adopt the strategy first could benefit from the advantage. From the business perspective, I think it makes a lot of sense. I am positive about this program.

The program sponsors could be pension funds and many other asset owners. Also, asset management firms themselves would consider fund provision for these emerging managers to obtain their potential superior returns.

Atsushi Saito: Thank you very much. So today, we have become more specific and this is significant, and our theme is; What Tokyo can do to become a global financial city? We need to look at the specifics and see what we can do and what we cannot do. There are things that can be done easily.

The tax issue is extremely important and we cannot skip this issue. However, as Mr. Makino and Mr. Yamaoka have mentioned, we need to think about the social equality. Can we really introduce preferential treatment for foreigners, in order to increase the pie of Tokyo. We need to think about the acceptance of it by the Japanese people.

We need to be able to explain that if we take such preferential measures, the pie of Tokyo will increase in total, and this will lead to benefit the people in Tokyo. We need to discuss more about tax issues continuously. We are now on schedule, and I would like to receive Governor Koike's comments at the end. Thank you very much everybody.

Yuriko Koike: Well, under great leadership of the chair, we have come so far. Yes, as Mr. Saito has said, I think we have been able to have a very specific and concrete discussion. Thank you for your cooperation.

The chair has summarized on what we should do. We should come up with cost-efficient measures that will have better outcome, and something Tokyo can work on their own. Moreover, when we are going to call upon the central government, we need to come up with positive proposal related to the strategic special zone. As for the related industries, Professor Kawamoto and Mr. Kunibe's perceptions may be different, but what we need to consider are those unique practices and customs in Japanese industries. There should be something that can be changed or something that must be changed, and we need to look at them as well. We do not want to be left alone from other financial centers, so we need to think of what we need to do.

Regarding the finance matters, unlike the safety investigation of Toyosu, this does not attract so much attention but it is actually a core of the matter. We need to think of how to communicate and send message, we have to come up with creative ideas. In the case of coming up with the necessary ordinances, we have to have Tokyo assembly members, who can understand what we are trying to do.

As Mr. Sayama has been mentioning we need to think about the education in short-term, mid-term, and long-term. The other day, I was watching news and I heard about Intel providing free programming education in Saitama's elementary school. I was impressed. Perhaps, we could do something like that in Tokyo.

As for middle and high school students, to attract students from overseas to Japan could be a good idea. In Abu Dhabi, there is elementary and middle school for the Japanese; Emirati also enrolls in these Japanese schools. However, there is no such school for high school students, so they need to think of what to do after graduating the middle school. How about asking them to come to Japan, and let them stay in dormitory and study in Japanese high school. If they think it is cool, they could become a cool talent. It is my personal opinion, but when we think in mid-to-long term, there are lots of ways of thinking.

As for the Tokyo Award, this is something we can come up with various arrangements. We would like to ask the six major universities in Tokyo, and the Tokyo Metropolitan Universities, their opinions and ideas for it.

EMP, this word always reminds me of electromagnetic pulse attack. We would like to look into possibilities of how we can nurture new managers.

The other day, a friend of mine asked me, “Do you know the biggest ad agency in the world?” The answer was, “It is the Facebook”. “Do you know the biggest film distribution agency?” “It’s the YouTube.” “And the world’s top taxi company?” “The Uber” “What’s the biggest hotel company?” “The Airbnb” “How about the world number one retail chain?” Now, I think everyone has come up with the answer; Amazon, Alibaba.

Setting aside what the criteria for No.1 is, nowadays, they do not make things, nor do they keep inventory, but they just are so prevalent in the world. Japan has been focusing on manufacturing. How can we keep growing without abandoning manufacturing legacy? How can we achieve sustainable growth and keep this capital of Japan vibrant? We need to think and act comprehensively, and progressively. Suggestions about FinTech, that there are places for us to take active role in new area, rather than in established area, were very valuable.

So little by little, now we are starting to see some specifics. Do you think it will make our job easy, Mr. Chairman?

Every one of you has shared with us valuable inputs, and pointed out various issues. Thank you very much for your kind cooperation.

Sir Roger Gifford, thank you very much for your participation and contribution. Thank you everyone.

Secretariat: Thank you very much indeed. With this, we would like to conclude the meeting. There are three announcements I need to make. Please check the minutes we will send you later. The next

meeting will take place on April 15th. Leave the receiver on the chair or on the table, or return them to the receptionist outside. Thank you so much.

END
