

Advisory Panel for Global Financial City Tokyo (Fourth Meeting)

(Transcript)

April 14, 2017

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

1 Opening

Secretariat: It is time to start, so we will be beginning the fourth meeting of the Advisory Panel for Global Financial City Tokyo. Thank you very much for coming over here despite your busy schedule.

One member has changed. From the Japanese Bankers Association, in replacement of Mr. Takeshi Kunibe, Mr. Takashi Oyamada has joined this panel. Sir Roger Gifford is now in person here in Tokyo. Please give them a warm welcome.

Today's meeting materials are available in the tablet. As for today's attendees, please refer to the tablet looking at the attendee list in material number 1 and seating chart in material number 2. Please note that slides in the tablet will be automatically changed.

Also, please find on your table four materials that introduce the latest measures taken by Tokyo. The first material is an article about advertising Tokyo, "Why not Tokyo?," which has been posted on the New York Times on March 22. The second materials are brochures of the Unique Venue, and one of them is about venues of private facilities, and the other is about venues of TMG's facilities. The last one is a PR brochure "Tokyo" to appeal Tokyo's attractiveness.

To begin with, I would like to ask Governor Koike to make a remark.

2 Address by the Governor of Tokyo

Yuriko Koike: Good afternoon everyone. Thank you very much for attending this fourth meeting of the Advisory Panel for Global Financial City Tokyo, today. This is the first advisory panel held after Fiscal Year 2017 started. We could save the communication costs this time since Sir Roger Gifford is attending the meeting in person from London. Thank you very much for joining us today. Also, Mr. Oyamada, Chairman of the Japanese Bankers Association, joined this panel from this time. Please give them a warm welcome.

In the last three panels discussions, members of the panel made presentation on important themes including potential in Tokyo seen from overseas, taxation system, education for investment, and development of asset managers, and gave us their valuable insights.

On April 1st, the Tokyo Metropolitan Government (TMG) opened the satellite center of the Tokyo One-Stop Business Establishment Center next to the Hikarie Building in Shibuya. And, including the establishment of the Financial One-Stop Support Service for foreign financial institutions who are considering setting up base in Tokyo, various initiatives to make Tokyo a Global Financial City are now taking place.

On the other hand, turning over to overseas situations, as I have discussed with Sir Gifford before this meeting started, the UK has invoked Article 50 officially last month. The Brexit is expected to have a major impact on the global financial landscape even while the negotiation takes place with the EU. When it comes to the US, the economy in the US is booming since President Trump took office. However, there are situations that may impact Japan such as the military strikes to Syria and the situation in North Korea. Moreover, there are uncertain factors in future prospects, such as the details of the economic stimulus policies President Trump wrote in the manifesto, including the tax reduction, are still unforeseeable. These drastically changing environments should be an opportunity to attract highly-skilled talents and investments from all over the world to Tokyo.

At hand, you will find New York Times, and this is a full-page advertising article from the Tokyo Metropolitan Government. I think that this is the first time for the Tokyo Metropolitan Government to

post this kind of public advertisement on the New York Times. People from overseas see this scramble crossroad in Shibuya as a place that represents Tokyo. Therefore, we posted the advertisement saying “Why not Tokyo?” with this scramble crossroad as a background to attract people from around the world to Tokyo.

In order to succeed in competition among cities, we would try hard to provide better services in medical areas and develop international schools to invite people with various skills from overseas. We would also make efforts to create Tokyo version of the Wall Street from Kabutocho to Otemachi. We would like to discuss about issues on various rules / systems at the advisory panel with relative organizations and the government. In order to proceed the discussion on taxation system, we need to work along with the government. We would like to study and work on what Tokyo can and should do, with all of you.

Today, based on their expertise, members from our Advisory Panel will make presentation on subjects which Tokyo needs to tackle with full effort. One of the presentations will be about promotional activities in overseas, based on perspectives from Japan and from the UK. The other presentation will be about promotion of FinTech which is enthusing many around the world recently. After the presentations, we would like to exchange opinions, and make this two hour conference a constructive time to realize global financial city. Thank you very much.

Secretariat: Thank you very much. From now on, I would like to ask the chair to proceed the meeting. Would you please proceed, Mr. Saito.

3 Agenda

(1) Presentation

Atsushi Saito: We would like to proceed the meeting, as the Governor told. There will be a question-and-answer session after the 3 presentation are over. Mr. Aritomo, would you please make the presentation?

Key Take-aways from Singapore and Hong Kong Roadshow

Keiichi Aritomo, Representative Director,

The Consortium for Japan International Asset Management Center Promotion

Keiichi Aritomo:

Good afternoon. I am Aritomo. For you to remember me, let me tell you the name of the organization which I am representing, The Consortium for Japan International Asset Management Center Promotion. This is a very long name and it is so-called JIAM in a short manner.

So now page 5, you may be familiar with this slide. Every time we talk about various recommended action items, I use this investment value chain to ensure we understand the inter-dependencies. What I am going to explain and also what Sir Roger Gifford is going to explain is “overseas promotion” which belongs to one of those four domains. These 4 domains are 1) general public/ investors, 2) financial services and investment players, 3) growth areas for investment and 4) platform supporting growth. According to my understanding, Mr. Yamaoka, will share his ideas on FinTech area, which is also part of this investment value chain. Every time we try not to lose sight on the overall picture.

JIAM is still a new and small private organization; however, eventually we would like to transform JIAM into something equivalent to CityUK supported by both government and various industry players. To that end, I am looking forward to Sir Roger Gifford’s presentation. Having said that, we have already interviewed more or less 200 asset managers, especially independent active asset managers visiting major financial cities (i.e., New York, London, Hong Kong and Singapore) twice. In the latter half of February to the beginning of March, I went to Singapore, and we met with the 47 active asset management firms. With respect to this roadshow, Mr. Taniya assisted a lot in Hong Kong and he

introduced his acquaintances working as asset managers. Now, more or less we have identified 13 asset managers willing and likely to open their presence in Japan.

On page 7, this shows who we met. Mainly, it is alternative related asset managers and also the liquid, the asset class and liquid asset. Liquid asset means mainly hedge funds and fund to fund and single manager. There are many Japanese portfolio managers but led by non-Japanese CEOs.

As for the asset size, asset owner type or the pension in overseas where the asset manager met with us, they do have several independent/ boutique asset management companies, and actually some large-sized companies have been involved. So it is maybe a little bit upward direction, but this is the fact, even asset managers categorized as small are actually sizable compared to many Asian asset managers.

On page 8, this shows what sort of the discussion we had and what reactions we received. We revisited our social imperatives faced by the Japanese, including the aging society and significant dependence on the pension. In addition, we touched on the status of our discussions at the Tokyo Metropolitan Government Advisory Panel. We have also mentioned that we are focusing on asset management and FinTech to shape our initiatives.

Now, wider reactions. More or less 60% of the asset managers showed a positive view and behavior. However, it was a surprise especially Japanese portfolio managers working overseas showed some skeptical viewpoints. The Japanese managers said this is JIAM's perspective and asked us whether the FSA is aligned with TMG and JIAM. The Japanese business environment is getting better. However, they are traumatized by their past experiences. The other one is the ecosystem including gatekeepers, and there are some great frustrations on the Japanese gatekeepers (e.g., trust banks).

I found it very shocking that quite a few overseas portfolio managers say Tokyo is lagging behind Seoul, South Korea as well as New York, London, Singapore and HK.

Page 9 specifies detailed comments. As for the positive views on Tokyo, while Trump and Xi Jinping in China, the two big important heads are taking up the protective policies, the third political force is needed in order to counter balance against the US and China. They say that Japan should revitalize its

industry to hedge the global markets. As for the Japanese technology, it was said that it is very attractive and sophisticated. Later on, Sir Gifford may mention, Japanese firms are generally lacking their capabilities to globalize their advanced technologies. Therefore, they said that they would like to make some investments on something to help for globalization.

On contrary, there are some of the skeptical views. Here in Japan, there is a large sized deposit as well as the pension but some people said they do not need any Japanese money. Once they got Japanese money, they have to comply with some onerous reporting and unrealistic liquidity requirements under this volatile market environment. From that point of view, some said Japanese asset allocators/ investors are not so attractive. And this is another perception or maybe impression. Even though Mr. Mori, the Commissioner of JFSA said that they make statement to reform this industry, it is not cascaded down to the JFSA inspectors well and impression wise, it will be the same as before. Kanto Financial Bureau is irrelevant from whatever JFSA leadership says. That is the impression that many people had. The other one is that without license they are not able to interact with an asset owner. Later, it will be elaborated. South Korea has NPS and visits overseas asset managers to listen to them and have discussions with them. But Japanese asset owners (e.g., public pensions) just sit at their offices in Japan, say that they do not have any license, so they would be rejected, and ask them to go through the Japanese trust banks.

The next one is on partnership. Many overseas asset managers are asking if Tokyo Metropolitan Government will help them identify their strategic partners. Many of them could only identify distributors. So more strategically, this will be a partner with whom they can share the same investment strategy and philosophy. And expectations to the regional banks are high as well. Overseas asset managers often view that Japanese regional banks might become good partners, but the banks are scattered across Japan, so it is difficult to see the banks. When they are able to see regional banks, regional bankers do not speak English. How can they communicate with regional banks? Those kinds of questions were often raised.

On page 11, they are concerned about business practices and industries practices. Overseas asset managers are frustrate with too many gatekeepers around the asset allocators (e.g. public pension funds). How to go through the gatekeepers to meet Japanese asset allocators/ investors? Is it inevitable

to get along with the gatekeepers in Japan? This is indeed the area where they have a concern. Overseas asset managers also say that those people working in the financial institutions in Japan do not have good understanding of alternative investment due to the commercial banking centric Japanese financial ecosystem. Such critical views were expressed as well.

Japan has to learn from Korea. Korea is moving ahead of Japan and their economic growth is sluggish, and the investment of pension funds was not sufficient, so this is an extreme case example. So Korean asset allocators, such as, NPS, KIS, and Korea Post are more active than Japan in borrowing the power of the overseas asset managers to aim for a turnaround. In that sense, some people say Korea is more attractive than Japan. We are used to being beaten by Hong Kong and Singapore, but we have to make sure that we are not complacent in being beaten by Korea, and we have to find a way out.

Lastly, summary on page 14. In that sense, this meeting of the advisory panel for Global Financial City, Tokyo, is known as “Koike Kondan-kai” among overseas asset managers. Kondan-kai became an English word. Great expectations on this meeting, but there is a skeptical view, misunderstanding, misconception and a sense of mistrust towards Japanese business environment, which persists. Whatever I say, the TGM and FSA and Ministry of Finance should be providing support, and with their support, we need to further make our effort with incentives and specifics of the policy measures at the same time. Even though we say that we are working hard, so believe us, it is still conceptual. But it is about time that we have to be more concrete in our measures. Otherwise, they will not be listening to us anymore. Also, with asset owners and FSA included, we have to further collaborate and promote Tokyo. That is all from me. Thank you for your kind attention.

Atsushi Saito: Thank you very much. Sir Roger Gifford, please make your presentation.

Tokyo Global Financial Centre

Sir Roger Gifford, Chair,

Green Finance Initiative, City of London

Sir Roger Gifford: Thank you very much Saito-san. Governor, it is a great pleasure to be here. Thank you very much for saving the communication costs and inviting me here in person. It is a real pleasure and thank you particularly for organizing such beautiful weather this week. I knew you are powerful but not that powerful, but thank you very much indeed.

Also because we, from a London perspective, believe in this project. We believe that if Tokyo and London can be more active with each other, if we can increase the capital flows between our two financial centers, we will both benefit. And if we can find ways to do that to explore the local market here to make it more international, more open, we think London will benefit as well as Tokyo.

So, that is why I am delighted to be here and to be part of this conversation. As you know, London, as I will explain in a moment, spends a lot of time and money promoting its own financial services both through London First and the City of London Corporation. That is a key part of what we do, and in a way, it is why I am here in Tokyo this week.

So, if you move to my first page, it would suggest that I would cover four topics briefly: Tokyo seen from London, strategy in financial markets, our own promotional activities, and London's experience. And of course much of this has been discussed before. I should hasten to add I am not here to tell you what to do or to teach the Japanese firms this is how you should be, because our experience is different, but perhaps some of London's experiences can be useful in terms of information.

And I think also, we have had such a strong experience in the last 10 years in London since the Lehman crisis, overall a positive experience and it is worth understanding why that has happened.

In terms of how Tokyo is seen from London (page2), these are adjectives which we have already heard. It is fascinating, it is attractive, it is reputable, it is safe, but it is also difficult, bureaucratic, and complex. Expensive, the language, etcetera.

Personally, I do not always believe in these adjectives. And I think we are on the wrong track if we spend too much time on the detail and not enough time on the major principle of what is the business, where are the business opportunities. It may be interesting to reflect on why Japan is attractive or not. There are many details which make it attractive, some make it less attractive, but what will always drive an investment decision is the potential for business. However, having said that, there are some aspects of Japan, which I think are very, very strong.

And the more we all travel around the world and go to different countries, including some relatively civilized countries, you will realize that we both share to 99.9% the Rule of Law and the independence of the judiciary. And in so many countries this is not the case. But in Japan, Tokyo, and London, it is the case. Particularly when it comes in financial transactions to the security of tenure of the asset, custody law, payments law, the ability to say every time the judiciary are independent, my assets are completely safe, is a great advantage. And as we will come back to, London has benefited enormously in the last 10 years since the Lehman crisis by having a “safe haven” status where the Rule of Law and an independent judiciary have been an important factor, and I believe Japan has that too.

I also think it is a great opportunity for Japan in a regional Asian sense, which I am not sure how much that has been exploited in the past. London is very much Europe’s financial capital, which is why Brexit is a little worrying to say the least, because we want to preserve London as a regional, as well as global, financial capital. It is today the financial capital of the region, including Africa, Middle East. There are many other competitors yes, but it is basically London for Europe. And I think Japan has a similar opportunity as a regional hub.

And I am very impressed to hear this week how much the Japanese banks have been expanding into Southeast Asia, not only in Thailand, Indonesia, Vietnam, Malaysia.

There is a lot of expertise in those institutions, maybe it could be brought back to Tokyo. But certainly from London's perspective, London benefits hugely from being a regional hub as well as a UK hub. I would estimate that 60% to 70% of the business happening in London is not related to the UK as such.

Lastly, I think it is worth noting, as Jesper Koll has pointed out before, that the world is much more connected than it was. There are fewer boundaries. It is not so necessary to move people from place to place. It is not so necessary to bring in hundreds of new people just to make a finance center. It can be done through the web and internet. It can be done by communication. It is not that they are exclusive to physical presence, but it is worth noting that the connections are more important than ever before.

So we come back to the question where are the business opportunities? If I move to the next slide on strategy in financial markets, I think it has already been discussed in previous meetings. Of course, we should focus on select product areas, where global connections are very important. And of course, we should encourage clusters of different services, legal services, accounting, consultancy, broking services. They are all part of the rich mix, which makes a financial center. I also think it is very important to make a strategy of the regional connections as we discussed. And then of course skills are important, talent is important, fresh influx of ideas, I will mention this again in a moment. But above all, I think it is about thinking of business concepts, not just products.

We must think creatively, think something exciting, innovation and creativity rather than asset management and banking. These are products which are very important. They represent the finance industry, it is hard, but I think London's reputation stands on being a global and regional hub, which is an exciting place to be. It is innovative. It is creative. It has an open architecture for people coming. It is much more a concept than a specific set of products. The products almost look after themselves, the individual banks, insurance companies, brokers, lawyers.

So it is again when you look at the obvious signs of Japan's reputation globally, today, I think it is about food and film and fashion, three Fs. So, let us add financial services, yes. I think it is very remarkable that such a brilliant job has been done in these areas. I can tell you that nearly every medium-sized town in Great Britain has a restaurant which pretends to be a Japanese restaurant,

because the reputation of Japanese food is so high. It has probably never seen a Japanese recipe but it pretends to be because that is the reputation. So it is about concept. It is about other things than just products.

If we turn to the next slide on promotional activities, very obviously, the Olympics are coming. The world will be coming to Tokyo in 2020. What a great opportunity! You know this already very well.

Then, I wanted to mention the CityUK. This is something that has been very useful in the UK. It was borne out of the financial crisis, so it was borne out of necessity. But it has nonetheless proved to be a very valuable agency. It is a single body. It has cross-industry membership. It is independently run, independently from Government, independently from any other agency, but with very close connection to the City of London Corporation.

It is for lobbying government, lobbying the authorities, looking for beneficial conditions, and it has been successful in representing UK financial services, and it has been established with the City of London Corporation, with financial and personnel help from them, but is run independently.

Of course, along with the Olympics will come this “charm offensive” which I talk about, which I think is rooted in soft power and in concept. If you are selling me something, I am much more excited in the potential of that product than in just the basic product. And I think it is the case with setting up financial services, greater international market in Tokyo. I want to get excited. I want to know what the dream is. Not only where am I making money but why am I buying into this concept. And I think there will be many clever people who can create the right concept about why Japan is a very exciting place to be.

Personally, as I mentioned, I think banking is a mature business whereas I think wealth and asset management are less mature. Here in Japan there seems particularly an opportunity with large amounts of cash held in savings and great opportunities to develop that into other investment products.

If you come then to London's experience specifically, which is the next slide, staying at the top, I just mentioned the City of London Corporation. It is the municipality that runs just the square mile. It should not be confused with the mayor of London, which was Boris Johnson and now Sadiq Khan, which are operating for the whole of London, all the boroughs in the way that the Tokyo Metropolitan Government runs the whole of Tokyo Metropolitan area. The City of London Corporation is just looking after the square mile.

It is a very old body. It is 1000 years old. I was Lord Mayor #685. The Lord Mayor himself spends about 100 days traveling to 30 countries selling the city, just with a small team, sometimes with other business people, often with banks, and frequently those banks are American companies, Swedish banks, German organizations based in London, but they are traveling with the Lord Mayor as part of UK financial services.

As I say, 100 days traveling to 30 countries. There are also inward visits by many foreign ministers, prime ministers, and presidents. And when they come, they come and see the government. They sometimes come and see the Queen. And they usually come to the City of London, often for high-level hospitality. And the City of London pays for this out of its own budget. So overall, it is quite a lot of money spent on representation. Quite a big budget, many millions of pounds spent on representation to make sure that the city continues to market itself as a very active financial service center.

I could mention diversity and this interesting fact that today less than 50% of Londoners are "white British". They may be "white" but they are not British, and they may be British but they are not "white". It is a remarkable statistic that surprises those who live there as well, but it is a statistic and that brings with it diversity, and I believe, strength.

Being part of the European Union today, we also benefit very much from incoming French, German, Italian, Spanish, without any problems of visas or work permits. This may change in the future. We shall see. I hope not.

I have also mentioned that foreign ownership of local property assets is very high. It is estimated that in the City of London 75% of all office space is owned by foreign firms. That provides very “sticky” investment. It means the people who own a property in the city do not tend to run away at the first sign of trouble. So that is one reason why I am optimistic that Brexit will be a more sticky experience than it could otherwise be.

The city also undertakes a lot of other promotional activities in order to build up its activities. So we had quite a campaign around arbitration and dispute resolution five years ago. We now have about 250 foreign law firms based in London, up from some 20 or 30 foreign law firms 20 years ago, many of them American, as well as having about 250 foreign banks.

We similarly had a campaign on Renminbi internationalization that London should be the center outside China for trading for Renminbi. That was very successful and it came two years ago. We had a campaign for Islamic banking, which is perhaps unusual, but it resulted in some 20 sharia banks being established and based in London doing international Islamic banking (or sharia compliant lending) out of London. Again, a small but important part of the fabric of the city.

We have a current project, which I am very active on, around Green Finance. We launched last year a Green Finance Initiative bringing the Government, the Treasury and the Department of Energy and the city together into one group together with many private sector companies and banks, discussing how to develop green bonds, green loans, green equities, green investments, green insurance, from London.

And in FinTech, there is also a current project to build up expertise in FinTech. Each of these is rather small and rather specific, but together they help to advertise that London is very busy, very active and wants to build up in these areas. Notice none of these are really very much about banking. They are all about concepts connected to financial services.

Finally, on asset management, I think one of the things we feel about Brexit is that it may not be very good for banking in London. It may not be very good for securities trading. But it could be very good for asset management. So the volume of assets managed in London since the Lehman crisis has doubled from £3.5 trillion to £7 trillion, and I do not see any great reason why that cannot increase

again to 10, 12, 15 trillion. So maybe we will see more of a campaign here too. And behind this thinking there has been a belief, I really think since the 1980s, since deregulation of the 1980s, that although change can be disruptive, it can be inconvenient, it can be harmful to local interests, but for London as a whole, there is a belief that 70% of 200 is more than 90% of 100. If we double the market and London loses market share that is fine. 70% of 200 is 140 and 90% of 100 is 90. This is simple mathematics. And I think through all the difficulties of the last few years and the incoming of different foreign firms, we have tried to maintain that thinking in our head.

And just finally one example of this could be around asset management. I think robo-investing - which I know you have also looked at and you know here in Tokyo and I think the next speaker will also be talking about a bit - but very briefly, robo-investing is fascinating in London because it is creating another period of change. It is another disruptor, and you have something like an “arms race” between the big firms like Blackrock and UBS. They are racing each other to develop more sophisticated, more investor-centric robo-investing models. These models are where asset allocation decisions are taken out of the hands of managers and into algorithms, being developed now for some of the biggest asset managers having initially just been in the retail space. It is also talking about removing human error, and it can provide better returns for investors.

The big asset managers like Blackrock and UBS they, I would say, are being challenged. Robo-investing threatens to take their profits away, but it is inevitable simply because if open markets can go that way and lower fees, it will go that way, because that is how markets work. And that is why Blackrock and UBS and Fidelity and others are all now developing robo-investing models. I think Tokyo could well work with London to develop further the idea of robo-investing and be part of a world technology driver in asset management. I think that would be, for instance, one great area we could work together in.

So to conclude this short presentation, we can look back to deregulation in the 1980s and the 90s and then 10 years ago as well. Deregulation has been one of the great stimuluses of financial markets. It is very hard to come and look at the Tokyo market and understand it fully. I would not claim to do that, but it seems to me that if there is some way of developing the local savings market into more of an

investing market, you would have a revolution, truly. Let's change the retail attitude from saving to investing. People are earning zero on their deposits. It would also open up a market for foreign players as well as domestic I know this is not such a new observation to make, but it seems very obvious to an outsider to comment upon it. So there we are, governor and chairman. That was my presentation. Thank you.

Atsushi Saito: Thank you very much for giving us presentation. Yamaoka-san, it is your turn now.

Finance, Innovation, Technology

Hiromi Yamaoka, Director-General,

Payment and Settlement Systems Department, Bank of Japan

Hiromi Yamaoka: The title of the slides shows finance, innovation, and technology. Listening to today's discussion so far, I should have also inserted the words of "fashion" and "films", but today's "f" means "finance" and "FinTech". Why FinTech is now on the table? As Sir Gifford illustrates, the City of London experienced the "Big Bang" in 1980s. Then, what makes the difference between "Big Bang" and "FinTech"? That is the first point that I would like to illustrate.

There are three new elements in FinTech. The first element consists of blockchain and DLT, which were introduced with the bitcoin. Many firms are now trying to apply these new technologies to their businesses. The second element is AI, which is artificial intelligence. The third element is smartphone. Since smartphones originally were mobile phones, they are inherently designed as very "personal" tools, as each smartphone is expected to be owned as a single person. On the other hand, PC was originally owned by a whole family. So, if firms try to use smartphones for providing financial services, they are strongly required to customize these services for each of the users.

Why is FinTech gathering great attention now? One of the major factors is "historical coincidence", in which epoch-making events occurred almost simultaneously. For example, blockchain technology and bitcoin were born in 2008. Regarding AI, "deep learning" has been rapidly developing since around 2010. iPhone, which was the first smartphone, was also created in 2007.

Also, in 2008 "Lehman Crisis" occurred and public funds were injected into financial institutions in U.S. and Europe. Once public money was spent for banks, public opinions tend to become hostile against banks and welcome new entrants to financial services. Moreover, since the Lehman Crisis global bank regulation has substantially been tightened, and tougher bank regulation has led to favorable conditions for non-bank new entrants.

There are wide array of FinTech services. Among them, the most prevalent ones are payment and settlement services. For example, since many people work during the daytime on weekdays, e-

commerce and internet shopping are likely to be heavily used during the nighttime or in weekends. In internet-based auctions of used (second-hand) products, the buyer cannot personally know about the seller. In the transactions of mp3 files of music pieces, the price for each piece is usually very small. Thus, the users of e-commerce need payment instruments that can be used during the nighttime and in weekends, and even for very small amounts, without notifying credit card numbers to sellers. FinTech firms are providing such payment instruments, and they are now becoming widely used.

Among various FinTech services, customized services for each individual's asset management and accounting are also growing. I think Mr. Taniya actually designing these businesses.

Why is the world focusing on FinTech now? For example, even in African countries where the number of bank branches and ATMs is limited, smartphones are now becoming widely used. In particular, Kenya is well known for its nation-wide use of electronic payments. In Kenya Maasai young men often come to Nairobi to work, and they want to send some money to their family. It was difficult for them to send money before, because they did not have bank accounts. Nonetheless, it is becoming possible and easy for them to send money through their phones. As this case illustrates, FinTech is providing great opportunities to emerging and developing countries to enhance "financial inclusion" and facilitate people's access to financial services through smartphones. Against these backgrounds, G20 and international developing organizations now have great interests in FinTech.

Moreover, global and giant IT companies such as Apple, Google and Alibaba are now entering into financial services. They are focusing on possible new sources of businesses stemming from "economies of scope" of financial services and other businesses such as commerce and information processing. In sum, FinTech may "globalize" and "personalize" financial services. FinTech may facilitate the provision of financial services to 7 billion people all over the world, and to design those services to be customized for each of 7 billion. Moreover, FinTech may "virtualize" financial services. In other words, FinTech may enable various entities to provide financial services without having any brick and mortar bank branches or computer centers

Another feature of FinTech is that FinTech is strongly expected to contribute to people's daily life. One of such examples is bio-authentication technologies. Since the security is extremely important in financial services, the customers are required not to use their birth date for their PIN codes or passwords, and not to use the same passwords for multiple purposes. Nonetheless, not only for elderly people but also for myself, it is not easy to memorize many passwords or PIN codes, and it would be very risky if we write down the passwords on a piece of paper and put it in the wallet. If FinTech enable us to easily use bio-authentication instead of passwords or PIN codes, FinTech and bio-authentication would be very helpful, especially for elderly people.

Sir Gifford has already mentioned about the prospect of asset management businesses. Indeed, the issues regarding asset management businesses have already been discussed in this group. One of the reasons behind the underdevelopment of asset management businesses in Japan has been the recent macro-economic environments. Another reason is relatively small inequality in terms of distribution of wealth, and many Japanese people might tend to say that they do not have so many financial assets enough to be invested by professional asset managers. Nonetheless, even though they are not millionaires, they might be able to easily use robo-advisors with relatively low costs for their asset management.

Moreover, as a prerequisite for asset management, it is important for each individual to accurately grasp his or her own portfolio, and to consider what is needed to support his or her life planning. I believe that FinTech can make a great contribution to such activities through enhancing financial literacy. Needless to say, Mr. Taniya is an expert in these areas.

Furthermore, in this group the issues of "fiduciary duty" have also been frequently discussed. As Sir Gifford has already mentioned, if we use Artificial Intelligence (AI) and robo-advisors, all we have to do in this regard is to set up a program so that AI and robo-advisors shall strictly follow their fiduciary duty. Then, we can design the framework in which human asset managers, AI and robo-advisors compete with each other. If some human asset managers are less reliable than AI, they will be forced to exit from asset management businesses, and as a consequence reliable asset managers with good investment records would survive. As such, if we design contemporary asset management industries

suiting to this era, we need to consider how we can effectively combine FinTech, AI and the judgment made by human beings.

Then, what can we do to promote FinTech in Tokyo? Needless to say, Tokyo has many advantages and strong points. Today, very fortunately, Jesper has already written the strong points of Tokyo and Japan in these books we now have on the table. So I would like to go directly to the challenges to Tokyo and Japan. Looking back the history, I think one of the factors behind the development of Tokyo and Japan has been that Japanese people generally have a good character to sincerely try to understand their weaknesses, and to adopt the strong points of foreign countries in a frank manner.

First of all, we can point out the heavy infrastructure of Japanese financial industries. In Tokyo, we can easily find bank branches and ATMs in a walking distance and obtain cash. When I was working in the International Monetary Fund I visited many countries. But I could not find any city like Tokyo in terms of the density of bank branches and ATMs. Nonetheless, now FinTech facilitates the provision of financial services without using bank branches and ATMs. Indeed, in overseas countries “virtual banks” without having any physical buildings have already been established. They provide their services through smartphone APPs, and use cloud computing services instead of having their own computer centers. Now, Japanese financial institutions are facing tough competition with such “light-weight” overseas institutions. If Japanese banks fail to make sufficient efforts, they would lose their market since overseas firms would directly and easily enter the Japanese market through Internet.

Japan’s technologies are often excellent. But, we should seriously consider whether those “excellent” technologies have also become “global standards” or not. Nowadays there are many TV shows in which foreign visitors see and are surprised at Japan’s excellent technologies. Nonetheless, the fact those foreign visitors are “surprised” to see Japan’s technologies evidence that these technologies are not used globally, so we should not be happy to see that. If these technologies, which are really welcomed by foreign people, are created by non-Japanese companies, they might immediately export them to foreign countries so as to receive license loyalty.

For example, Suica is based on an excellent technology. Millions of people use Shinjuku station next to this building every day, and Suica, no-contact type IC cards, are widely used to process these people

quickly passing the gates. Nonetheless, foreign countries tend to say that they do not need such a “high-spec” technology because they do not have any gigantic train station like Shinjuku.

Moreover, since basic financial services have already been widespread in Japan, entrepreneurs may ask whether there would still be room for further growth in Japanese market. This issue was already raised by Mr. Taniya in the last meeting. For instance, India has the populations of over 1 billion. In November 2016 India suddenly invalidated high-denomination banknotes, and since then digital payments have substantially increased. In China, “WeChatPay” already has hundreds of millions of users. On the contrary, in Japan we need to seriously consider how we should and could foster new businesses in such a matured economy. In view of these economic environments, I believe we need to design business models that can be used not only within Japan but also overseas, especially Asian countries with large population, and to realize the “economies of scale” across the borders.

Professors Sayama and Kawamoto already raised the issues of English language, which is the common language in financial services. Indeed, London, New York, Singapore and Hong Kong are ahead of Tokyo in terms of global ranking in finance, and in all of these four cities English is a public language. So, if Tokyo really wants to be a global financial center, we should always bear such inherent disadvantages in mind and make our best effort. In order to overcome language disadvantages, Japanese firms’ efforts to give good positions to and make use of the people having worked abroad for many years would also be very important

Regarding the issues of Japanese mental characteristics, Sir Gifford already introduced the phrase of “charm offensive”, and I think this is really important for Japan. Indeed, Japan’s humble and modest characteristics might be a part of the background behind that fact that Japan’s excellent technologies are rarely “global standards”. A few years ago I was working in the field of global financial regulation. In the global discussion, anyone who makes the first proposal tends to have advantages even though the proposal is far from perfect. Nonetheless, Japanese delegations tend to refrain from making the first proposal because they tend to feel that making imperfect proposal is a “shame”. I personally feel that Japan should also make a proposal even though it has only 70% satisfaction, and then receive opinions,

say “thank you for your comments” and improve its own proposal later. When I was in my previous position, I strongly feel this kind of “bold” attitude is generally lacking in Japan.

I will skip the next two slides. These slides simply show the fact that Japanese people have many cards such as credit cards, debit cards and pre-paid cards in their wallet, but these cards are not frequently used. If we ride a taxi in Tokyo, there are many logos of the cards that can be used for paying tax fares. Nonetheless, none of them is used widely and globally. This fact also shows the characteristics of Japan’s situations.

Then, what should Japan do precisely to promote FinTech? In Japan, non-bank FinTech companies tend to seek for the collaboration with banks, rather than challenging them. In order to facilitate the collaboration between them, “open innovation” is very important. In order to encourage open innovation, one of the options is to support the investments in open APIs. Another option is to encourage the investments for R&D, PoC experiments and cyber-security. Moreover, foreign companies thinking about coming to Tokyo are interested in BCP (Business Continuity Planning), since Japan geographically cannot escape from the risk of natural disasters. So, we might be able to consider how we could support their BCP.

In order to consider precisely what we can do to promote FinTech, I would like to introduce the initiatives taken by overseas countries. There are many initiatives such as holding FinTech events, awards and competitions and taking regulatory measures. Since professor Sayama already mentioned the idea of “Tokyo Award” in the past meetings, I would like to introduce the cases of FinTech awards and competitions in overseas countries. Many countries have already held FinTech-related competitions and given awards to winners, and there are some common characteristics in these events. First, the authorities asked public opinions on issues and problems to be resolved through FinTech. Second, as the awards given to winners, the authorities tend to provide the opportunities for startup FinTech firms so that they can make demos of their businesses, and the venue for networking and conducting experiments, rather than giving huge amount of monetary rewards. I would like to add that MUFG, led by Mr. Oyamada, has also been very active in taking such initiatives also in Japan.

UK and Singapore are widely known as front runners in promoting FinTech. Regarding UK we have Sir Roger with us today. So, I would like to focus on Singapore. Also in Singapore, the authorities asked public opinions and problems to be resolved through FinTech. Then, the authorities posted as many as “one hundred problems” to be resolved. Since there were so many problems, I guess part of them had been prepared by bureaucrats in advance.

Many of these 100 problems were closely related to people’s daily life. For example, some people want e-money that can be used by children only within their schools, and only the parents can grasp what their children have purchased through this e-money.

I think that such kind of competitions and awards are worth considering also in Tokyo. Before establishing this group, there had also been long-lasting discussion for a couple of decades to make Tokyo a global financial center. Nonetheless, if politicians and public opinions thought that the goal of the discussion would simply make rich financial people even richer, they did not support the discussion. Moreover, nowadays global public opinions are becoming more sensitive to the issues of economic inequality among the people. In order to make this meeting successful under these environments, it is important for us to make effective public communication, through which people can believe that promoting financial activities in Tokyo would make people’s life more convenient and secured. In this regard, I think that the public communication regarding the competition and awards, rather than the contents of the awards, might be able to have such effects.

Also, the speed of FinTech developments is very fast, and for FinTech businesses the speed is critical. So, if we simply announce that we will do something after completing our final report at the end of this year, FinTech firms might see our timeline a bit too slow. On the other hand, we might be able to immediately ask Tokyo residents and foreign tourists for their opinions, requests or issues to be resolved. By starting such communication as soon as possible, we might be able to show our “sense of speed” in terms of promoting FinTech.

Besides, institutional and regulatory issues are really difficult. Looking at the cases in foreign countries, many countries tend to avoid simply announcing subsidies, so as to discourage unprofitable

projects focusing only on obtaining government subsidies. Rather, foreign authorities tend to clarify what kinds of investments they want to stimulate, and subsidize some portion of the expenses actually spent. As the Chairman Saito already mentioned, we need to have deep understandings of the existing regulatory and institutional frameworks if we try to consider any policy measures in the realm of fiscal policies. I would like to continue considering the best possible policy tools with other members.

As Sir Gifford said, 2020 Olympics and Paralympics would be a great opportunity for us. We need to make our best effort so that foreign people coming to Tokyo could have the impression that Tokyo is not only a good place but also very convenient in terms of financial services, or that Tokyo is doing the right thing to enhance the convenience also for foreign people. If foreigners having such impression go back to their home countries and convey such impression to others, it would be a great communication from Tokyo to the world. We should make full use of this great opportunity in order to realize “Smart City Tokyo”.

(2) Q&A

Atsushi Saito: Thank you. We heard three presentations. Now, we would like to open the floor for our Q & A and exchange of opinions. As it is the first time for Mr. Oyamada to attend the meeting, we would like to start this session with your comment.

Takashi Oyamada: Thank you. I am Oyamada. On April 1st, I assumed the post of the Chairman of Japanese Bankers Association. This is my first opportunity to attend. As Mr. Yamaoka said, we are conducting various activities and experiments in various places. In Singapore there are two. One is e-check, utilizing blockchain, which enables us to issue and transfer checks on paperless basis. The other is smart contract, which enables us to manage flow of goods and money on blockchain. Because the Government of Singapore is very supportive to provide a high degree of freedom in conducting various experiments, we are doing these experiments in Singapore. Looking at Tokyo, we had the Accelerator Program last year and this year as well.

I would like to explain about specifics of the Accelerator Program. We joined hands with FinTech companies last year. Eighty companies expressed their interest and five companies were selected out of 80. We provided dedicated office space and support functions for them when they were starting business. Six collaborative projects have been in place already.

FinTech companies, as was mentioned earlier, had been unbundling the financial services and ICT technology was used in the areas where they have their own strengths. But these days, we come to realize that the venture companies would like to re-bundle and work together with banks. That kind of attitude and trend is increasing. For instance, at the MUFG group, we have 40 million retail accounts and 400,000 corporate accounts. Now, we recognize that many FinTech companies would like to leverage our business infrastructure, especially customer base mentioned above. Therefore, I believe it is very important to collaborate with FinTech companies and to create the opportunities as well as places for the collaboration.

As mentioned, Japanese Bankers Association developed a working group for Open-API and revised banking law is now under discussion. In addition, Japanese Bankers Association also established a

collaboration platform for blockchain. We would like to accelerate such activities as collaborating with FinTech companies and setting up the places for collaboration.

And one more point. As Mr. Aritomo and Sir Roger explained, perception gap is still big. We need to conduct promotion by establishing various programs so that the perception gap would be reduced. In this regard, as a banking industry, we would like to play an active role. Thank you very much.

Atsushi Saito: Thank you very much for the very meaningful and significant proposal and comment. This is a Tokyo First forum, as President Trump would say America First. How would the people from around the world come to Tokyo? Tokyo has to be attractive to them. In order for Tokyo to become financial center for Asia, what can Japanese Bankers Association do? We would like to hear a presentation on that at some point in the future. Now, I would like to invite comments from the members. Anybody? Please raise your hand. Do not be shy. Mr. Koll, your book has been just been published, do you have anything?

Jesper Koll: First of all, according to Sir Roger, success stories have to be promoted. Japanese people are sort of bashful and Japanese people are not so active in doing sales promotion. There are many success stories, especially with regards to financial services. So whether it is going to be Japanese Bankers Association or Japanese Security Brokers Association, there should be some promotion. It is not advertisement campaign, but it should be a continuous story. The CityUK, this is a success story and it is endless and it is not something slogan, but more by product or by industrial sector. Success stories and continuous success stories have to be made. I think that is the biggest challenge for us.

Atsushi Saito: On that point, as Sir Roger mentioned, expenses or the cost of promotion. When you do promotion, I think that considerable amount of money will have to be expended, and Lord Mayor is spending almost all of his private asset or money for promotion. Can you share the mechanism to make that possible with us?

Sir Roger Gifford: The mechanism is 1000 years old. The mechanism is really the City of London Corporation, the body, is an independent body which has worked 1000 years, built up its own assets.

These are not assets owned by the government or by Greater London Authority. This has effectively its own property, its own investment portfolio. You can estimate how big this is. It is many billions of pounds, and because it has this, it uses that for charity, for philanthropy, for supporting the arts. It is the third largest support of the arts in the country and also for promotion. That is a very important part of the economics that the City of London has its own finance.

As I mentioned, when a visiting head of state comes or when Mr. Abe came a few years ago, we were able to lay out a splendid dinner and reception for him at our own expense. But maybe we should differentiate between that and the CityUK. The CityUK is a membership body. It has several hundred members. They all pay a fee according to a sliding scale and according to their size. So the promotional body CityUK, which is independently run, has a separate financing structure. It is also given a good subsidy or good donation from the City of London Corporation, but by no means all of its fees come from that. It comes from the members, many hundreds of members, some big, some small who want to participate in the promotional body.

Jesper Koll: Are the members only finance companies or lawyers?

Sir Roger Gifford: Lawyers, absolutely, the whole ecosystem is invited to become members of this.

Jesper Koll: What money are you talking about?

Sir Roger Gifford: We are talking about, I think, the largest fee is around £100,000, so that is what we said ¥10 million would be around the largest fee paid down to. I think we as a bank pay a few thousand pounds, maybe ¥ 500,000, kind of annual fee.

Jesper Koll: So robo-advisor pays £10?

Sir Roger Gifford: Even less, yes. But the principle is that this is the body that everyone believes in.

Atsushi Saito: Totally independent body, that means has nothing to do with the real government of London, City of London.

Sir Roger Gifford: It has nothing to do with the Greater London Authority and it has nothing to do with the government of the country.

Atsushi Saito: Financially though.

Sir Roger Gifford: But financially it is also part of the city. It is very close to City of London Corporation. They are very close to each other. The Lord Mayor who is the mayor of the council of the city is also the president of the CityUK, so they are very close. It is promotional.

Atsushi Saito: If we were to do so, then we should think of a body like that. We are not able to cover all the budget by the Tokyo Metropolitan Government. What do you think Governor Ms. Koike?

Yuriko Koike: Probably, how much will it cost?

Atsushi Saito: Cost for promotion must have been very, very expensive.

Sir Roger Gifford: It has quite a few staff who is involved in writing research, but it is not a particularly expensive organization. The promotion is maybe more in the hospitality that is extended. The travel program of the Lord Mayor. By the way, the Lord Mayor is an unpaid position. Lord Mayor is not paid. It is an honorary position, which you are very happy to do it if you are Lord Mayor. It is not paid. So, there is some cost saving there, but the running of the Mansion House of the Guildhall, the running of the promotional activity, 100 days travel to 30 countries, plus promoting legal services Renminbi, Islamic banking, green finance, these all involve quite a few staff. So, in the end, it is quite a big budget.

Jesper Koll: Can I just make one comment to that? And correct me if I am wrong. I think one of the keys is that it goes across all the sections of the financial services industries, right? Because Japan, and correct me if I am wrong, you have the banks, you have the securities companies, you have the insurance companies that all have their own lobbying body in one way, form, shape or another, while this goes across all of finance.

Sir Roger Gifford: Yes.

Jesper Koll: Correct?

Sir Roger Gifford: We very much have our trade associations. We have the British Bankers Association, the Insurance Association, the Asset Managers Association who are representing their individual members, but they are also brought together into one body in the CityUK.

Jesper Koll: And there, it becomes one team that plays for London?

Sir Roger Gifford: Yes exactly, for financial services. I invite you to come and study it closer.

Jesper Koll: I think you should hold a party for this committee.

Sir Roger Gifford: Yes, okay. Next meeting in London. I am afraid that may not reduce the communication costs very much, but very welcome.

Yoichiro Iwama: Thank you very much for your comment. I visited London last year. I visited the CityUK and had a meeting with its member staffs. My main concern at the time was how they are going to work on to prepare for Brexit. They attended a board member of FSTIB, Financial Services Trade and Industry Board, consists of influential leaders both from private and public sectors. It is quite impressive that FSTIB explicitly stated ten agenda items every year and they are closely monitoring those agenda items continuously. Would you please share with us how these bodies, CityUK and FSTIB and/or governments itself, coordinate each other effectively?

Sir Roger Gifford: The FSTIB is part of treasury, so it sits within the treasury. So, it sits within government, but on it are representatives of the city and of CityUK. It, in a way, is the body within government treasury that is helping to direct policy and helping to influence. In a way, it is the counterpart to the CityUK, but sits within government.

I think the UK government has recognized the importance of financial services, so for instance the embassy here in Tokyo has become very active in a very good way in promoting financial services. Many UK embassies now, they use financial service as one of the diplomatic tools. Green finance is a good example where many embassies around the world are now promoting seminars about green finance. And this in the end we hope will bring business to London. That would be something that FSTIB would also know about or might hope to promote, but the interaction we have found between government and the financial services is key, and it will be particularly important over the next few years with Brexit discussions coming, but FSTIB itself has CityUK on it and they are part of treasury.

Yoichiro Iwama: The annual agenda items of the FSTIB are covered the FinTech and asset management as prioritized industries and China and India as target countries for cooperation to develop their finance industry. Also, it disclosed a close communication with Singapore with respect to further sophistication of FinTech. Are those agenda items shared with the CityUK? Does CityUK decide to take actions based on those agenda items together with FSTIB?

Sir Roger Gifford: There is a very strong belief that working with other financial centers is good for London. It is the old thing of $2+2=5$ when it comes to financial services. So we have a special group for discussing with Frankfurt and with Paris where we will meet and discuss how to make financial services between Paris and London better. And it is the same with Singapore or with Hong Kong or any other center. If we can find ways of increasing capital flows, then we are interested to have that discussion. Nonetheless, there is a very strong belief because of the size of the Tokyo market, exactly this conversation could be very productive because of the ability to transfer to make it. Would it be dual listings, would it be common asset management principles, would it be other ways of finding methods of increasing business flows, but there is a strong belief that working with other financial centers is very important. Yes.

Atsushi Saito: Any other comments? I would like to ask anybody from the floor to make comments. Mr. Yamaoka, you included into your own presentation on FinTech agenda item. From general perspective on FinTech I did understand. But when it comes to Tokyo, if we want to focus on Tokyo, for example, can we make friends in Asia say that they need to come over to Japan because of FinTech

technology? Can we make something that is compelling for them to come? It looks like it is fragmenting Asia. That is my view.

Hiromi Yamaoka: Rather than encouraging foreign people to come to Japan for doing FinTech businesses, it might be better to consider how to use FinTech to support the convenient stay of foreign people coming to Tokyo. In this regard, Tokyo has great advantage, since Tokyo has everything including various touristic places and well-developed traffic networks. In view of these resources, if foreign tourists coming to Tokyo could purchase multi-purpose e-money and they can use almost all facilities in Tokyo including touristic sites and public transportations by it, it might be very convenient.

In terms of doing various business experiments, Tokyo has many types of locations. As Mr. Taniya mentioned at the last meeting, in the center of metropolitan Tokyo there are big office areas where people with high financial literacy are working. So, we might be able to think about creating a special zone for promoting e-money in the center of Tokyo. Needless to say, restriction on the use of cash might cause some inconvenience. At the same time, nonetheless, handling costs of cash is becoming substantial not only for banks but also for retailers. So, if they create branches of shops in which only digital payment instruments can be used, they might be able to provide additional services since they reduce the costs of handling cash. As these hypothetical cases illustrate, I think there would be a lot of projects to be tried especially in Tokyo. I feel sorry for not responding to your question directly.

Atsushi Saito: Mr. Kariyazono, would you like to make some comments?

Soichi Kariyazono: I have two comments to make. One, as Sir Roger suggested that is robo-investment and alliance with Tokyo on robo-investment. The government went to Germany for IOT. With Germany, they are going to make an alliance on industry 4.0, so Germany is driving industry 4.0. Here in Japan it is connected industry. So I do think that it was a good alliance to work together with advanced country. That is what I thought. Therefore, I do think that Sir Gifford's suggestion was very good advice from Tokyo's perspective.

In relation to asset management for robo-investment, as Yamaoka-san said, this should be including inbound experience for the operation perspective. The robo, maybe it would be more customers to the individuals parts, but maybe B2C should be able to provide some experimental or experience opportunity for FinTech. And also virtual currency is another one that people could have some experiment with. So the banks shall be able to develop applications to use the e-money in order to provide some environment to be able to utilize the newly developed application on utilizing FinTech startups and I do hope that it could be well used in an effective way.

Atsushi Saito: Anybody else? Yes, please.

Sir Roger Gifford: We have not yet heard the word ‘crowdfunding’ and I wonder if that is something that, I would be very interested to know, because that has become a very popular form of investment for people in UK.

Atsushi Saito: Mr. Kariyazono, probably he is a specialist in crowdfunding. In the US, JOBS is developed. That is the venture companies. Through the crowdfunding, the US enjoys some expansion rapidly. When I look up the JOBS, almost all the security laws are exempted, even though it is very rigorous regulations. I do think that crowdfunding is used for the newly established companies in the US to operate. Any comment on that please, Mr. Kariyazono?

Soichi Kariyazono: Crowdfunding and venture capital, it is divided into two layers from Venture Capital Association perspective. Venture capital is done for scaling up. And in Japan the work for crowdfunding is underway for designing the institution. It is forward-looking, but we may be lagging behind on how the institution and system are to be established and compliance and governance response. As a result, small ideas are to be realized and the crowdfunding and financing for realizing small ideas is not scaled up yet.

Atsushi Saito: Mr. Inano please.

Kazutoshi Inano: I would like to make some supplementary comments on crowdfunding. As I am sure you know, there are three types in crowdfunding in Japan. The donation-type crowdfunding is

close to pure donation. The purchase and sale-type crowdfunding is that, for example, you would provide funds for project for brewing local sake, and later receive the new product upon completion. The equity-type crowdfunding was introduced in 2015 with the revision of the Financial Instruments and Exchange Act. The equity-type crowdfunding is limited to less than 100 million yen for total issued amount, and a half million yen or less for investment amount per investor. Appropriate operators meeting certain requirement are allowed to provide crowdfunding intermediary services only through the internet. Under the regulation, the equity-type crowdfunding is now possible in Japan. But at this point there is no issue through the equity-type crowdfunding yet. The equity-type crowdfunding operators are to become members of the JSDA. There are a number of companies which express their interests in the equity-type crowdfunding intermediation. So, I expect these interests would lead to actual fund-raising through the equity-type crowdfunding, going forward.

Looking at the track record of the purchase and sale-type crowdfunding, in addition to the investment return, the crowdfunding would motivate people to make contribution based on their sympathy with the ideas and goals of the entrepreneurs and project initiators, which I personally think is pretty much in line with the feelings of the Japanese people. So there would be ample room for growth in the crowdfunding. Thank you.

Atsushi Saito: Thank you. In the US, donation type was first type. This is to be exempted from tax. This is actually used for evading tax in the States, and in order to stop that, they came up with JOBS, which resulted in a major success. As Mr. Inano said in the case of Japan, the amount is very small. Whereas in the United States, big amount of financing is done. For example, Tokyo is to become a center of ventures, then in Tokyo, the crowdfunding will be handled advantageously for exemption. I would like to hear the comment of the governor please.

Yuriko Koike: Thank you very much. First of all, after I listened to the presentations, I would like to express my appreciation to the three speakers, and then two questions and also the comments on crowdfunding.

There are things said commonly among the three persons; that is, AI and robot are used for financial transactions. The introduction of algorithm has resulted in fewer dealers in need and such people find

it difficult to find a job. Then this might be sarcastic that we are inviting sophisticated professionals to come to Tokyo, but they may not have to come to Tokyo. I think FinTech is like that. If that is the case, people with skills come from abroad to Japan naturally if it is a nice place to live in.

We will continue to enhance the environment. But financial service is an area which sees very rapid changes and how should we be promoting Tokyo more for financial centers? The Lord Mayor's activities so far resulted in London, Renminbi promotion and Islamic financing. This is something that the Tokyo has to do, make more efforts to promote Tokyo, so that foreign financial companies can operate in Tokyo as a basis for their financial services.

How far is FinTech going to go? Hearing the story about the Maasai of Kenya, I thought that it is a big revolution in the world. As for financial institutions in Japan, which are based in Tokyo, it should be a big project to think of how to support and, at the same time attract FinTech from outside Japan.

The term *kondan-kai* is known to foreigners in Japanese. Knowing how much it is known to the world, just submitting a report will not be enough, and I feel how important this *kondan-kai* means.

So how far ahead do we have to think about the prospect of FinTech? I would like to hear your views, and also about crowdfunding. I myself tried donation type crowdfunding and I was able to collect 25 million or so. And people with high amount donation did not normally ask about tax exemption. People donating small amounts of money asked about the possibility of tax exemption. What we did for the children in Syria, the refugees in Syria, is build a school in Turkey, in cooperation with Kathy and others. Currently, in Turkey, at the border between Turkey and Syria, refugee children's school was established and teaches first graders to ninth graders in Arabic language. People graduated with skills and education in the last three years. That school was built thanks to crowdfunding.

As I was thinking about crowdfunding, it is easier to collect money if you have a pinpoint objective. There are funds that were gathered to support earthquakes, such as the Great East Japan Earthquake and Kumamoto Earthquake. Although, it would be better to focus on more specific target, such as fisheries in the Sanriku area or fishermen catching certain species of fish, to collect and use funds effectively.

That message is key. I strongly felt that people are asking for the message that they can sympathize with. Equity is introduced in crowdfunding, and this seems to be interesting.

Personal financial assets are now ¥1,700 trillion. Financial literacy is still not enough, so that these assets are not effectively used. And also there are many vacant houses in Japan. In Tokyo alone, there are 830,000 vacant houses. They are asset but they are left abandoned. This shows how Japanese people are not good at asset management or many people think that it is not a good thing or benevolent thing to do. As for FinTech, what are the prospects of FinTech? I would like to hear Mr. Yamaoka's comment.

Hiromi Yamaoka: I very much appreciate all of your valuable remarks, Ms. Governor. First, Governor Koike mentioned about crowd funding. Also from theoretical viewpoints, if we could more precisely define the purpose or the target of crown-funding, it would become easier to raise funds. Indeed, in past cases, people tend to support crowd funding for making their favorite animations into movies. If people deposit their money into bank accounts or invest it in debt securities, they cannot control how and for what purposes their money will be used. On the contrary, in crowd funding people can reflect their own intention in the final destination of their money. This is the most particular difference between ordinary financing and crown funding, and the main reason why “well-targeted” and “focused” crowd funding is better also in terms of raising funds. So, I fully agree with Governor Koike's remarks.

If we look at the relevant statistics, as Sir Gifford is well aware of, China occupy dominant share in the global volume of crowd funding, especially in terms of amount outstanding. The main reason of such China's dominance is that the share of financial intermediation through commercial banks is relatively small originally, so that crowd funding is widely used instead of bank deposits and loans. Nonetheless, the true added-value of crowd funding is “financial democracy”, in which each person's intention can be more easily reflected in the use of his or her own money.

Then, I will try to respond to the question that how far FinTech will go. As Governor Koike implied, FinTech would facilitate the provision of financial services with less physical infrastructure. At the same time, since the Renaissance era finance has experienced many technological innovations. People often argued that these technological innovations might make some financial functions unnecessary. For example, some people argued that digital technologies, which replaced paper securities with digitalized ones, would dispense with human resources in the back office. Nonetheless, the financial functions did not disappear. Rather, they have firmly and continuously been maintained.

This is because finance inherently has indispensable functions of creating “linkages” between people across time and space. Finance links “current expenses” to “future expenses” over time, and borrowers to lenders over space. This function of creating linkages shall continue to be needed also in the future. Therefore, I think finance will survive, with expanding the range of the entities to be linked, and with changing the style of creating such links.

The range of the entities to be financially linked in the future might differ from the current one. For example, in the future IoT (Internet of Things) might be a promising area to be financially linked. In case of Kenya as I mentioned, when people did not have the access to financial services, they could not access to correspondence education or mail-order businesses either, because of the lack of payment measures. Nonetheless, since people in Kenya now have payment instruments, there emerge also the opportunities for the development of e-learning or e-commerce. As such, the development of new financial services may also foster new sources of businesses, and finance itself also develop with creating new linkages with these new businesses.

Governor Koike also mentioned about Syria. I also visited Syria once, and it was really a beautiful country. As people come to know various incidents, like that in Syria, all over the world, I believe there are always some people who want to extend helping hands to other people, or want to be linked with them. As people share such basic sentiments as human beings to be linked with others, I believe the function of finance will not disappear.

Atsushi Saito: Thank you very much. For your reference, London became the settlement center of Renminbi. Prior to that, Tokyo was preparing to become the settlement center for Renminbi. Whether or not Bank of China would recognize Tokyo as the settlement center of Renminbi, they made promise. But with Senkaku Island territorial issue, that promise was canceled completely and it was moved to London, Seoul, and Frankfurt. China moved that out from Tokyo. As Tokyo becomes the center of multi-currencies settlement center, government included strategy and policies are needed. I would like to mention this for your reference. Mr. Kindred, do you have anything to add?

Jonathan B. Kindred: To pick up on Yamaoka-san's point, because I totally agree with it in reference to the governor's question. I think as we contemplate where FinTech is going, it is not a complete displacement of what happens today. But rather it is a way to optimize the human expertise that is deployed in financial services with digital tools that are becoming available through new scientific methods and a radical expansion in computer processing capabilities. And so, from a Tokyo perspective as a marketplace, I think what we should be focusing on is: how can we develop frameworks or forums that bring together applied practitioners in financial services together with academia and entrepreneurs that are coming up with new ways to deploy scientific methods.

And one thing to think about in that context is as Sir Roger mentioned, there may be activities going on in London that are worth thinking about and deciding how do we connect with them. Or for instance, another thing that is going on in New York is Cornell University is establishing a big Tech center on Roosevelt Island as a direct response to a request made, by Mayor Bloomberg, for a proposal several years ago. It is a big financial endeavor. But the idea is to make New York a FinTech center by having academic expertise very close to practitioners that are currently engaged in running these businesses.

And maybe there is a way, for instance, for Tokyo to look at establishing some kind of satellite center or something like that, within the Tokyo Metropolis. This would be a way to leverage expertise that is already happening somewhere else and creating a forum to bring together the bankers, associations and the asset management firms together with scientists and academia resident here in Tokyo.

So, that is one comment, and if I may, just add one more comment on one thing that Aritomo-san mentioned about the perceptions around Japanese asset managers in Hong Kong and Singapore vis-à-

vis the regulator here. I think it is very dated, and I think that we should do more outreach to address that view. Because I think as people come to understand, as we do as regulated institutions here, that the current reality is very different from the perception that came out of your survey. Thank you.

Atsushi Saito: Sir Roger, please.

Sir Roger Gifford: I just want to reinforce Jonathan's point that our experience is that the FinTech does not reduce the number of people. It is like the computers do not get rid of paper and actually the jobs are different, but they are almost more jobs than before. I think we saw how Amazon, the number of book shops that Amazon has put out of business in the UK. I think it was something like 15,000 to 20,000 people have lost their jobs as a result of Amazon bookselling, but they created another 150,000 jobs in distribution, in packaging, and in programming. Actually, it is not about losing jobs, probably gaining jobs, and overall, the most important is you want to increase in the market size overall. If you increase the market size, then everybody is gaining, benefiting, so our experience it is not from FinTech and particularly banking does not reduce jobs. It increases jobs.

Atsushi Saito: Yes, please.

Jesper Koll: Just to underscore the point about FinTech, finance in Japan is very segregated into different silos. The whole point what FinTech will do, it will break down. It is not a vertical. It is a horizontal application and for Tokyo to create that ecosystem where everybody actually communicates together, together with academia. Jonathan's point is absolutely key.

What Cornell University is doing right next to Manhattan is spectacular, because again, it is about the synergies, the entire ecosystem, all the different disciplines coming together and then setting the global standard because if you do not do this united, it is not going to happen.

Atsushi Saito: Thank you. Anybody would like to comment? Yes, please.

Soichi Kariyazono: I have one question. For the academia and financial sectors, there is Level 39 in London and there is some outstanding case that I heard. I have a question to Gifford-san, but as Mr. Kindred said, this is an ecosystem and it is a big incubator system. Is there any viewpoint that you have?

Sir Roger Gifford: It has been a very successful incubator, and in fact, it is no longer on one level, in the same tower I think as your building is in London, is no longer one level. It is on many levels because it is outgrown. A lot of it is spread up to what we call the Silicon Roundabout just north of the city where there are now about 55,000 people working in FinTech around that area. And this has been again, I must say, a policy between governments and the city to make it happen. So innovate – and big conference this week speak on innovate finance. I am not saying that London is clever about these things, but in this where the government has worked with industry, it has been successful, but Level 39 has been a successful incubator. It has many companies which then go from there elsewhere, but it is a bit like the idea you are discussing for setting up hubs near to universities or near to other practitioners. Level 39 is in the middle of the financial district of Canary Wharf, so very close to practitioners, you can call on them anytime.

Atsushi Saito: Taniya-san?

Mamoru Taniya: I totally agree what Mr. Yamaoka said. I used to be a fund manager and now I am providing the robo-advisory, also crowdfunding services as chairman. . So, from a practitioner perspective let me make some comments. Firstly as for the fund manager, as to this FinTech, I do think that passive asset management could be replaced by AI, but private equity, venture capital, hedge fund and talented active asset managers will not be replaced by AI.

The factors to be provided where it is unchanged, then it can be done by AI. However, when it comes to the market it is very difficult. New factors emerge all of a sudden, Unless AI could analyze the universe itself or the space itself it will be difficult. For venture capital, private equity, hedge fund, active managers from fund manager's perspective, I do think talented fund managers will remain.

The next one. Mr. Inano said earlier for crowdfunding, I do think that it is fit for Japanese. In Japan, for donation, it's said very difficult to collect. I had some difficulty at school to get some donation for ISAK, but as to the Red Cross in Japan or UNICEF where they gather the biggest donations on the planet. Anonymous individuals are making donations. Now, where they are supporting should be identified if it is possible. However, where is the donation destination, for those wealthy people who will be able pick up where they would like to donate. But for general public, they go to the UNICEF or the Red Cross in Japan or the large size institutions. That is the only option that they have.

So far, there was not much access available for them where they can pick up some donation destination. However, when it comes to the crowdfunding, I think this is a very good system, and I do think that it is fit for Japan's practice. Likewise, there is crowdfunding and robo-advisory. What is targeted is like a financial inclusion that is the financial democracy that needs to be achieved. What is the biggest issue here in Japan? Personally speaking, it is KYC area, know your customer area. To open the customers' bank account, the face-to-face dialog is needed. As for the Internet business, when I develop application, it is often said like 10 seconds to say no moment, and then they would not do anything. But for Japan, they have to send money by post, with registered post. It takes more than 1 week but it is only 10 seconds with the Internet. So that is a painful part. It is not the financial-related issue. It is more like money laundering or the proceedings from the criminal sources unless this issue is solved. In India or other place, it is very easy to open a bank account, but here in Japan, it is not the case. Therefore, this is the largest obstacle. So, it will be interesting if we could solve this issue from Tokyo.

Atsushi Saito: Thank you very much for your comments. So, Mr. Sayama, please. Mr. Makino, please do next.

Nobuo Sayama: Thank you very much for your insightful presentation, and Aritomo-san focused on Asia and Sir Roger talked about the cutting edge advanced the use case, and also the FinTech was covered by Mr. Yamaoka. At the end of the day, what Tokyo can do or should do is important. From our perspective, maybe we are trying to get money or collect money from those people involved in financial area. But at the end of the day, the business in relation to the finance and also technology in

relation to the financial services. Who would play this central role and who mobilizes this? Who drives this? Who could be a core company? Maybe those companies listed should be garnered here in Japan and Tokyo.

So the ultimate goal makes a difference. If we want to be able to develop a smart city, then people will come here because it is very convenient and people will find it easy to work. But I do not think that Tokyo is the most complicated society and we are not able to find the equivalent in other world. If we are able to establish a global standard and there is a very interesting technology and if it is following the global standard, I think it would attract people.

For asset management, people can source from anywhere. It is just an issue of rules or institutions. So, in relation to the business and technology, money and people, we have to think how we will be able to attract these two things to Tokyo.

Atsushi Saito: Thank you very much for your insightful opinion. Please, Mr. Makino.

Jiro Makino: Thank you very much for comments. I am sure that a report will be released. Hopefully, it is as feasible as possible from the private perspective and from the Tokyo Metropolitan Government perspective and what the government can do.

We have to sort out what each stakeholder can do as Mr. Aritomo mentioned earlier. The Japanese regulations are very much unclear and that has created some distrust. Japanese people who are working outside of Japan are skeptical. If they think that it is not fit for the financial services here in Japan, I do think that foreigners will not find it easy to do the job here in Japan. Maybe there is some preoccupied notion. JFSA is now trying to identify what sort of issues are in place for the administrative part. If they were to analyze further, then that could also be embedded into the report on the issues recognized by the FSA. It could be a little bit hard for FSA to hear some advice, suggestions from outside. However, we would like to penetrate into the JFSA further. If anything that we can do, please let us know.

Atsushi Saito: I totally agree with you. For longstanding period, for 10 years or so, we have been discussing with the authority. Makino-san was the counterpart, which means that he was in the authority side. For Japanese society, order always matters and rigid rules are in place, and to have the beautiful order; we find this is valuable. Many politicians and bureaucrats think so. If we can change this mindset, then some money may flow in. However, many people put less value on changing these rigid rules and beautiful order.

For example, in China, trading with bitcoin has been prohibited or it started to be prohibited. Now, it is coming into Japan, so with bitcoin stock exchange, we will be able to become a Bitcoin Trading Center in the future. However, there might be some nature of crime and some money may be ones that are being warned by China. This is one of the topics that we have to think of, whether to take the risk or not. Therefore, we have to strike a balance. Makino-san's suggestion is very important. Therefore, we are going to discuss with the Secretariat to take up this topic.

We do still have time for five more minutes or so. We would like to ask the governor to make a comment.

Yuriko Koike: Sir Roger Gifford, thank you very much for coming all the way from London, and we are able to welcome you with cherry in full blossom. Even though this meeting is to discuss about the Tokyo Metropolitan Government, let me ask you about the AIIB on my personal interest. With upcoming Brexit, and London, or to be accurate, the U.K actively promoting the Asian Infrastructure Investment Bank (AIIB), what do you think are the expected role of the AIIB?

Sir Roger Gifford: Let us say I should have an advance notice of that question. I think what I can say is that I know that there is great enthusiasm for support. If you like, many of us in London are focusing on what we call 'through Brexit policies' where we look beyond the next few years of difficulty in discussion around trade, financial services, everything from cheese through to Euro bonds. So, looking beyond that, the UK has stated very clearly its desire to increase trade and to be more global and more open than before. You can discuss that and argue about that, but so far, AIIB has been high up the agenda for showing support and that this would be seen as one of the instruments for promoting rather

than holding back. We would like to make the difference between the UK attitude and the apparent US attitude, which looks as though it is becoming more protective in some ways. Jonathan, you may wish to comment. But we are emphatically looking to increase external influence, and AIIB is one where we would hope to be still very present, but I should give you a better answer than that Governor if I had been asked the question before. I do not know if we have any embassy staff here.

Atsushi Saito: Anybody else? Any other comment? No. If not, I think that we have come to the scheduled point. So, I would like to ask the Governor to make some comments please.

4 Closing

Yuriko Koike: Thank you very much. We now have spent two hours, and I would like to thank Sir Roger for coming all the way from London, and Mr. Aritomo for your survey, and also Mr. Yamaoka for touching upon payment method undergoing to see change as well. Today, we even talked about crowdfunding, and we have covered diverse grounds during the discussion.

On the other hand, we have to put what needs to be done on the table one by one, and then categorize them and come up with an effective report as Mr. Makino said. We are not going to be NATO. That was my first message. Japan is not a member of NATO (North Atlantic Treaty Organization). By NATO I mean, No Action Talk Only. Let us not be no action talk only. What we have to aim for is to make this panel which will lead to action.

Already a number of proposals have been made, and how we are discussing on how to realize these proposals, including about Tokyo Award. We also have the Metropolitan University Tokyo. So combining different players, we have to come up with the optimal conclusion, and make it more effective.

Change is occurring and the speed of the change is so fast. We have to be catching up with the change. Moreover, I do hope this discussion here will be recognized as the foundation and the driver. I look forward to your continuous support. I express my gratitude to all the members. Thank you very much indeed.

Atsushi Saito: Thank you. With this, we would like to conclude the meeting. And there is some housekeeping announcement from the Secretariat. Next meeting, the fifth meeting, will be held in May

Secretariat: Next meeting, the fifth meeting, will be held in May and later on the date will be communicated to you. I thank you very much for your participation. The meeting is adjourned.

Yuriko Koike: In conclusion, I have one more message. When there is an opportunity to hold reception and international conferences, please consider utilizing various unique venues which Tokyo

owns. We would like to offer accommodating opportunities for everyone in Tokyo. Thank you very much indeed.

(End of the minutes)