

Advisory Panel for Global Financial City Tokyo (Fifth Meeting)

(Transcript)

May 19, 2017

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

1 Opening

Secretariat:

Panel members Mr. Taniya and Mr. Koll will be late due to prior engagements but let us begin on time.

We shall now begin the 5th meeting of the Advisory Panel for Global Financial City Tokyo. Thank you all for gathering today despite your busy schedules.

First of all, I would like to introduce a new panel member, Mr. Haruo Shimada. Mr. Shimada is the Chairman of the Board of Trustees of Tokyo Metropolitan University and Chair of the Area Promotion Council of the Special Zone for Asian Headquarters. He will introduce himself and give a presentation later.

In addition, for the second half of today's meeting, we have invited Mr. Motoyuki Yufu, Deputy Director-General, Planning and Coordination Bureau, Financial Services Agency, to be our guest speaker. He will be giving us a presentation. He will be sitting at the main table later.

Today's schedule and materials are in the tablet. Please find the members present today in the participant list of Material 1 and the seating chart of Material 2 in the tablet. Materials in the tablet will change automatically in line with the presentations.

Now, to open this meeting, we will have some words from Governor Koike.

2 Address by the Governor of Tokyo

Yuriko Koike: Hello. Thank you very much for participating in this meeting of the Advisory Panel for Global Financial City Tokyo. The first meeting was held in November last year, and today's meeting marks the fifth time for it to be held. I am very grateful to you all. We are also connected to Sir Roger, who came here from London for the last meeting.

Good morning or good afternoon, Sir Roger. Thank you very much for your participation.

And Taniya san, thank you very much. Where are you today?

Mamoru Taniya: I'm in Shanghai today.

Yuriko Koike: Oh yes, thank you very much.

Mamoru Taniya: Yes, pleased to be present.

Yuriko Koike: I look forward to your cooperation and active contribution of opinions.

And, as was introduced just now, from this time's meeting, Professor Haruo Shimada, who has recently taken up the position of chairperson of the Board of Trustees of the Tokyo Metropolitan University, will join us on this panel. He is an educator, and has been engaged in urban policies for many years. I had requested his cooperation in many ways on the Okinawa issue. I look forward to your frank opinions.

In the four meetings that have been held up to now, we received your various opinions and advice concerning our goal to reinstate Tokyo as Asia's top city for international finance.

In particular, we have been receiving various opinions regarding the review of tax systems such as the inheritance tax, receiving harsh views that such changes will not be accepted by the national government's tax system research commission and others—I am also well aware of that climate.

During these discussions, the environment around Japan has also been changing greatly. For instance, I am very much interested in the election of Mr. Macron to the French presidency, and the general election that will take place next month. I felt like we are in the same kind of situation. And it is said that Macron is a financial Mozart. He is very well known in the world of finance.

Now, there are a range of developments to watch in Europe. There is Brexit, the establishment of the Macron administration, the direction Germany will take, and so on. And, what President Trump will do is also of intense focus. Amid such an environment, various currents or trends are in motion. Currents always move, of course, but these currents are forming a maelstrom. In this situation, what kind of city should Tokyo be? I look forward to the discussions today.

Today, we will sort through the discussions conducted by this panel to date, and summarize this as an interim review.

Today, Deputy Director-General Motoyuki Yufu of the FSA has taken time out of his busy schedule to be a guest speaker. I look forward to his presentation on the central government's latest initiatives in the area of finance.

Please actively participate in the discussions today, and based on the interim review we will be putting together today, we plan to formulate a interim report on policy for "Global Financial City Tokyo" as early as next month. I look forward to working with you again today. Thank you.

Secretariat: Thank you. We would like Chairman Saito to facilitate today's discussions. Mr. Saito, please proceed.

3 Introduction and greeting address of new member

Atsushi Saito: Let us proceed as scheduled. First, as mentioned earlier, our new member, Professor Shimada would like to give a few words and a brief presentation. Thank you for preparing so many wonderful materials. Due to time restrictions, please limit your presentation to 10 minutes.

Haruo Shimada: May I begin?

Atsushi Saito: Yes, please.

Haruo Shimada: I am Shimada as was introduced earlier.

Today, I have two topics to discuss. One is about the main theme of the advisory panel, Global Financial City Tokyo and how Tokyo can revive as Asia's central global financial center. The other is the Tokyo Finance Award, a topic addressed by the advisory panel many times and which I understand, the Governor is very interested in. I would also like to provide my thoughts on this.

Tokyo used to be the center of Asia's finance. It was clearly due to its economic size. Today, however, everyone thinks that Hong Kong and Singapore are Asia's financial center(s). For example, in terms of number of employees, Goldman Sachs has 6,000 in Hong Kong, 900 in Singapore and 1,000 in Tokyo. Tokyo is treated like Hong Kong's branch.

What happened? Tokyo has subsided due to the prolonged 20-year recession of Japan's economy as well as the Great East Japan Earthquake. During this time, Hong Kong and Singapore have executed drastic strategies to become a financial city. While Shanghai has issues in monetary policies and in its markets, its significant economic growth gives them a certain presence in Asia.

I think however, that there is a greater megatrend in motion, i.e. technological revolution. ICT and information technology has dramatically advanced financial engineering. As a result, financial products, funding and investment methods have significantly diversified. In addition, risk money has

increased at a faster pace than real economic growth and wealth is concentrated in a small group of wealthy individuals globally.

The center of finance should be where a vast amount of risk money can be invested using advanced financial technology with a taxation system and financial policies that attract funds. Such financial cities have specialized asset managers, players, investors and people to support these financial infrastructures. Tokyo has considerably lagged behind these cities.

Numerous research and recommendations have been made to revive Tokyo as a financial center. With Tokyo under the Koike administration, I understand there have been many studies and recommendations made. I believe Koike administration is able to execute and therefore, very much look forward to it.

Now, the most important strategic variable for a financial city is obviously, tax. The most recent corporate income tax rates are 30.86% in Tokyo, 16.5% in Hong Kong, 17% in Singapore, 20% in London, 25% in Shanghai. Tokyo cannot compete in terms of tax. President Trump in the U.S. started to say about 15%, although this may not be realistic. Due to efforts by the government, the national taxes are falling but we know that changing them are slow and in terms of effective tax rate, regional taxes are also important. There are various components to them and room for play. In addition, Japan's maximum rate for inheritance and income taxes are very high. From investors' and wealthy people's perspectives, taxes pose various issues and thus, they tend to avoid Tokyo.

Singapore, on the other hand, has implemented various measures such as matching double with successful venture funds. Also, to attract highly skilled talent, working and living environments need to be good. In this respect, Tokyo is outstanding.

This is my overview. Next, I would like to elaborate about Tokyo's vision as a global financial city and how to get there.

Firstly, I think a special tax zone should be established in a financial city. Here, a drastic national tax reform is necessary, as well as regional tax. Changes in regional tax rates, however, would only have 2-3% reduction in the effective tax rate. Our tax rate is higher by roughly 10% compared to our major global competitors so that would mean that national tax rate needs to be reduced by about 5%. Thus, in Tokyo's special zone, if Panel members could all agree to reduce the tax rate by about 5%, Governor Koike with her leadership can execute this. To compete globally, we need to be at least at this level and our determination to this cause would be questioned. I think it's time to fight for this.

Simultaneously, we will need to significantly develop the market infrastructure for asset management. Chairman Saito has been working on listing costs and now the Tokyo Stock Exchange's public listing costs are among the lowest of major global markets. Thus, I would like to learn how to attract Asian and companies from other countries to publicly list on the Tokyo stock exchanges.

Also, since asset management is integral to a financial city, players, especially hedge funds, family offices and private banks are important. In Japan, for some reason, players in the financial markets are large corporations and banks. I feel it is necessary to create a market where numerous independent players compete and advancement is necessary. At the same time, as it relates to the players, Tokyo lacks experienced lawyers, accountants and investment advisory specialists. Further strengthening of these specialists are required.

Further, while this is also true for Japan as a whole, Tokyo, does not have very wealthy or very poor people but more in the middle - individuals with wealth of between 100 million Yen to several hundred millions Yen, i.e. "middle wealthy" people. If we add in this layer, there is much wealth in this country. These individuals, however, are very low in financial literacy. They end up depositing in a large bank or funds are managed by large securities firms. Their services may be good and detailed. If we could, however, further encourage the investment advisers and build up talent, Tokyo can become a unique financial center for the "middle wealthy" people in the world.

Another point I would like to raise is that since we are a laggard in asset management, there are things we could do because we are in the pioneering stage. This, I believe is FinTech, that all of you have been discussing about.

FinTech is a technology especially centering around block chain. In China, about 80%, in the U.S. about 10%. Japan is minimum, but I believe this is an area we can expand on. Block chain is for finance but also has broader applications. For example, the national uniform number is like a block chain. Many applications are possible. Japan can become a center of this and Tokyo can lead.

In order to this, a central gathering space for knowledge and experience, a FinTech Center, needs to be developed. We can establish a state-of-the-art technology, best financial center in Tokyo. This is the place where venture firms, FSA and other governmental agencies, major banks and other technology firms and global players can cluster. In concept, it's a building where we can meet all the players at any time.

London's Level39 is famous for this and various financial institutions are there. Mitsubishi has already established a FINOLAB in Marunouchi but something 10 times this size is probably necessary. You may laugh but I would like to say that we could request Mori Building to pitch in to rent the entire building and establish Level 51 instead of Level39 in Toranamon. It's a joke now but I think we should seriously consider this.

There, we could establish a special tax system zone, including changes in national taxes. The scope is not large so tax revenue reductions are limited and with synergy, tax revenue additions can be expected, so it should/could be done. With this, all would want to rush to this building. I would like the Koike administration to make this happen.

Lastly, over to my expertise about the importance of comfortable living conditions. When I speak with foreign finance professionals' wives, they all tell me that "if our husbands can work where tax rates are competitive to Singapore and Hong Kong, we would not be in Singapore or Hong Kong." Tokyo is good, absolutely. It's safe, pleasurable and very nice. The Mori Memorial Foundation's Institute for Urban Strategies has been performing the Global Power City ranking (evaluating and ranking major

cities globally according to their comprehensive power to attract creative individuals and businesses) for some time. Last year, Tokyo finally ranked third, surpassing Paris.

As far as home and work environment is concerned, projects of work/home proximity are underway in the Tokyo station area, Toranomom and Roppongi districts. For medical care, services are now available in multiple foreign languages and special arrangements for a national exam in English (for medical practitioners) are in place. Roppongi Hills, Green Hills, St. Luke's International Hospital and Keio University Hospital are providing services. What's most important for foreigners however, is the initial visit, health consultation, preventive medical care and advice for special therapeutic treatment. Treatments can be performed at large hospitals. Receiving treatment does not require much dialog so can be performed in such institutions. Yaesu and Toranomom are currently vigorously catching up and if they continue to do that, Tokyo can become a wonderful city.

Next is about raising children. International schools are very important and there are together, 12 such schools in Tokyo's 23 wards and suburbs. Offerings are various from grade to high schools, and according to those currently going to school, the one with the best reputation appears to be K. International School Tokyo. The school has been established by Mr. Komaki of Komaki Jyuki located in Koto Ward. We could even go for a hearing once and investigate and see how wonderful they are. Similar attempts are currently made in Yaesu, Toranomom, Azabudai and other areas. This should be continued.

In addition to education and medical care, Tokyo needs to be fun. Materials that I have distributed today shows all of this, including international schools and entertainment from traditional to modern art. It's not easy to find a city with so much variety of entertainment. Tokyo is more than London or Paris. Tokyo is the only city with nine symphony orchestras. I'm a chairman of one of them. There is a lot of competition but there is diversity.

Moreover, Tokyo is the only city where there is so much food from all over the world. Also, Tokyo is the only city where lost wallets are returned. We should further polish these wonderful features of Tokyo. Finance aside, Tokyo is wonderful in another way, so both could be combined and with

Governor Koike's leadership, we should fight to reduce national taxes, to make Tokyo greater. This ends my presentation.

And just one more, very quickly. In the advisory panel, Mr. Sayama and Mr. Koll have suggested creating a Tokyo Finance Award many times and I know that Governor Koike is also interested in this. Then, what should the Tokyo Finance Award be like? Should it be academic, social? The Nobel Prize has Economics and finance is a part of it. Since Tokyo is a public organization, the award should probably not be academic. I believe that an academic foundation is necessary but it should be awarded to those that have social impact and meaning for the people of Tokyo.

While capitalism has its advantages, it also has disadvantages. This is historically true. One controversy of capitalism is that it creates a gap between the rich and poor. National reproduction would also become difficult and Karl Marx has written about this in "Das Kapital." In the UK as a tradition, Fabianism has compensated gradually for capitalism's shortcomings. Therefore, in our contemporary world, countries are covering for capitalism's shortcomings by combining macroeconomic management and social welfare.

More recently, due to the advancement of information technology, finance has developed considerably and is a major factor for economic development. Financial strategies adopted nowadays use heavy leverage leading to rapid accumulation of wealth but also have disadvantages such as creating a wealth gap or causing financial crises (of 2008/9). The world fully reflects from such events.

On the other hand, enterprises' emphasis on only maximizing profits has been reflected upon over the last decades. Many topics such as corporate enlightened interest, corporate social responsibility, creating shared value have been raised. Recently, interest has been on ESG (environmental, social and governance) investments. With such trends in mind, Governor Koike, by positioning the people of Tokyo first, have already addressed such values. These are represented as "Safe city, Diversity and Smart city."

Safe city refers to a city that assures maximum safety and peace of mind even after large earthquakes and accidents. Diversity means a city where individuals can live together while maximizing his/her capabilities, regardless of age, gender or nationality. In finance, Tokyo has great potential in utilizing its diverse social base in activities such as crowdfunding and has already achieved a good track record. And, “Smart city” relates to revolution and environment, meaning a city where technological revolution promotes better living and protects the environment to improve lives of Tokyo’s people. In finance, use of FinTech may be able to contribute.

Summing up, Tokyo has these basic agenda and any creative venture individuals that contribute to these efforts related to creative financial activities and services should be awarded. This will in turn show the world what Tokyo intends to be. I believe the Award will encourage young people, assuming this is for all the world, demonstrating leadership from Tokyo globally. This is the greatest value the Tokyo Finance Award can offer. Thank you very much.

4 Agenda

(1) Interim Review

Atsushi Saito: Thank you. Next, let us go on to discussions. Today is the fifth advisory panel meeting and as outlined in the schedule set forth at the first meeting, we would like to compile an interim review today, which looks back at the discussions held to date.

I understand that the TMG will refer to this review as it prepares an interim report on future measures to be implemented to be released next month. The Secretariat will next explain about the expected schedule and course of action going forward outlined in Material 4. After that, Mr. Aritomo will be giving an explanation of Material 5, materials for the interim review.

Mr. Matsushita, please proceed.

Secretariat: The Secretariat will now go over the future course of action outlined in Material 4. Please look at the top. This chart runs chronologically from April 2017 through this fall to November. The top half shows the timeline for discussions and proposals of the advisory panel, while the bottom half shows the timeline for TMG's policy reports.

On this chart, you can see that we are currently in May—with this the fifth meeting taking place on May 19, where the panel will put together an interim review. In June, as can be seen on the bottom half of the chart, we will release the interim report on policy for “Global Financial City Tokyo,” which reflects the interim review. We will be presenting this to the members of the panel, and several advisory panel meetings will be held between July and October. In these meetings, we would like you to deepen your discussion, further enrich the contents, and also take up points at issue that had not been sufficiently reviewed, and discuss them. Based on the Interim Policy Report, TMG elaborates each measure and compiles a “Policy Package”, considering the discussions of the Advisory Panel.

Therefore, as can be seen on the upper half of the chart, we hope to have the advisory panel compile its final proposal this fall in November. Based on that proposal and reflecting its contents, we will release the final policy report for realizing Global Financial City Tokyo. This report will be released by the Tokyo Metropolitan Government. This concludes my explanation.

Atsushi Saito: Thank you. As was mentioned now, it goes without saying that this advisory panel is a committee to provide recommendations. Implementation is the role of the TMG. This must be kept in mind at all times. I would like to reconfirm that our position is to make recommendations that the TMG can implement and that we would like to have implemented.

Now, Mr. Aritomo, please explain material 5.

Keiichi Aritomo: This is Aritomo. Council members, Thank you for reviewing this material.

Let us start off from a review. As for the background, the issues that surround Tokyo are the same as what the country, Japan, is encountering. To begin with, issues such as ineffective use of household assets, low birth rate and aging population, excessive dependence of senior citizens on public pension and public pension funds' still in early stages of international portfolio diversification, are more for the country as a whole. For TMG to tackle these issues, we need to think of recommendations that can be executed by TMG as well as the relevant government agencies. The material summarizes both the pros and cons of the opinions and comments made on these issues.

The input consists of both discussions from the advisory panel and my one-on-one interviews with each of the panel members. We have incorporated some inputs from overseas asset managers, especially from independent ones, that we have received from our roadshow overseas.

There are three frameworks employed in our materials today. The first is the SWOT analysis. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. This is based on all of your comments but is somewhat simplified. Interesting insights can be picked up from this analysis if you read between the lines.

Take for example a strength. It says "abundant funds" – yes, funds are abundant but are not utilized and circulated. Looking at this alone may not necessarily be perceived as a strength.

Also, in the third bullet, it says “Established legal system and business customs.” Having an orderly and established legal system is good but as also stated in the footnote, if we are too rigid about this, the system may lack flexibility. And right down below, “varieties and depth of domestic industries,” when we discuss this we have the tendency to drift toward “the manufacturing country- Japan and religious attachment to Made in Japan” and we lose track of the “finance” angle in the discussion. Also “high education standards” is listed as a strength but “up to high school” is in parentheses. That’s not the reason why we requested Professor Shimada to our panel as well as Professor Kawamoto. Does this paradoxically mean that we need to upgrade our universities and more advanced education level? “Advanced technology (especially artificial intelligence and robotics)” is also a strength. Traditionally, Japan has been strong in this technology but there aren’t too many people in finance that have expertise in this area. Thus, while this is listed as a “strength” we need to be mindful of reality.

On the other hand, let’s look at opportunity. It’s true that protectionist policies are becoming trendy globally. Given that Tokyo much open to overseas talents, Tokyo is becoming increasing more attractive from that standpoint. What we next need is leadership, which we have high expectations for Governor Koike and FSA Commissioner Mori. In overseas roadshows, we always received the question, “... by the way, is their alignment between TMG and FSA? are the leaders in agreement?” I feel very encouraged today that Deputy Director-General Yufu is present with us today.

Below that, what was eye-opening in the advisory panel was what Jesper and others were saying about low birthrate, aging population as an Opportunity for us. This is counterintuitive but we are finally becoming aware of not only productivity for blue collar workers but also for white collars and this could be accelerated due to this “opportunity.” This type of thinking represents the uniqueness of this advisory panel.

As for weaknesses, one key word that appeared from Mr. Suda is “predictability”. Japan’s rules are often said to be “difficult” compared to overseas’. It’s not the difficulty, good or bad. The greatest weakness is in the discretionary nature of the government that allows room for low predictability. I also thought this perception was original.

Now when we look at threats and obstacles, there is a possibility for reports to be self-directed. From this standpoint, there is an option for the advisory panel to continue to refine the interim review but we should conclude the report and from the next panel we should begin linking recommendations to the designing and planning of actions. In addition, since Deputy Director-General Yufu has joined us today, what's extremely important based on our roadshows, is the negative stereotype toward Japan's financial authorities, even among the Japanese living abroad. There is much misunderstanding in this area so this needs to be rectified.

Let's go on to the next page. This is our vision. This has not been sufficiently discussed but if I were to summarize each of your opinions, it would be "Smart Financial City Tokyo". What this means is, Tokyo is Asia's financial hub where people, money and technology come together. Special focus is on asset management and FinTech and its main orientation is for investors and clients, and not distributors. Your opinions, I believe, when integrated, is about making a city with such features.

Here, let's be mindful of the word "smart". Professor Kawamoto and I are McKinsey alumni and SMART for us stands for Specific, Measurable, Actionable, Relevant, and Time-bound. In the vision that we discuss here, we should be able to convert the vision into specific actions, then define how to measure success, and time bound – meaning what to accomplish by when by tracking milestones. I understand that we use "Smart Financial City Tokyo" as a tentative name in this advisory panel but I believe it is also necessary to consider how SMART we can be in this process.

On to the third framework. Today's the fifth meeting but in all prior advisory panel meetings, we have used "investment value chain." I think we are all getting used to working with this framework in our discussions. As such, we need to design policies promoting investment in growth areas creating a virtuous circle among people (i.e. people of Tokyo), investors and various players in finance and asset management services.

Professor Shimada used the word ESG. ESG is not specifically used in our materials but the linkage between C and D, designing policies to promote investments to make people's lives more abundant by realizing public benefit, and not only profits, I believe, are extremely important. Also, looking at A-4,

English services for procedures and consultation have started from April 1st at TMG and FSA's Tokyo Business Establishment One Stop Center. I believe it is necessary to clarify measures conducted there and to continuously design them.

Going on to the next page, it is important to clarify who will have ownership to drive the policies in each domain, A, B, C, and D. Today's meeting is an advisory panel meeting for TMG so from a narrow standpoint, TMG will be the main party responsible. Yet, if we go back to our original problem statement, we are dealing with national level issues. Having said that, TMG could still address or have influence over national issues. Considering time restrictions, realistically, the answer lies somewhere in between but anything that TMG can do, TMG should actively pursue. For other wider issues, I am thinking that TMG should not abnegate but coordinate with relevant stakeholders and proceed.

From here onward, we have received somewhat text-heavy comments from our panel members. Pros and cons of each comment are also represented in this document. Of them, taxation system is listed at the very top. Explaining this is an overwhelming task for me but I think it is worthwhile to note that those comments marked with an exclamation mark is extremely important. We need to ensure that each recommendation can be executed, or considerations for execution have been laid out.

The taxation system entails country-wide issues especially requiring the involvement of the Ministry of Finance and National Tax Agency. Thus, many issues need not be discussed in this panel as level of tax expertise differs among panel members. Instead, I believe these issues could be discussed separately by experts. Thus, I would like to skip taxation system discussions for this session.

Next, as for Regulatory Sandbox, there is very little opposition to this. Not having negative opinions pose another problem but as Mr. Yamaoka indicated, the term "Regulatory Sandbox" sounds good but there is no accurate definition of this term. What is it? It is necessary to clarify what specific changes in law would be made in the Regulatory Sandbox when designing policies. Further, flexibility in Labor Law has been discussed. We need to ensure consistency with the Abe Administration's work style reform promoting reduction of non-regular employees so as not to create any misunderstanding.

Going over to the next page A-3, there are no opposing opinions to improve living conditions for foreign high skilled talent. During our overseas roadshows, we asked if foreigners would be interested in doing business in Japan if living conditions improved. The answer was, “it would be a nice to have” but that would not be the reason why they would wish to establish businesses in Japan. We will need to scrutinize if promotion measures will really lead to attracting businesses to Japan.

Next is A4. As mentioned earlier, this is already in action.

From here, there are many pages and I need to stop somewhere. However, let’s look at B-1, about highly skilled finance talent. Expectations for TMU Tokyo is very high. Theory and practice are both important. In order to link them, there were opinions that Japan is weak in theory and research and education linking theory and practice is necessary. These should be two separate discussion. Also, it is stated that talent with advanced investment education should be appropriately appraised and should be given a stage to thrive. What does “stage” mean? Does it mean to establish a fund, a FinTech firm, or a promotion at an existing major financial institution?

Therefore, I believe there are many issues that need to be determined upon designing measures. For example, in EMP, what does “emerging” mean? Would only foreign fund managers be considered for “Emerging Manager” or shall we include independent domestic fund managers which did not have opportunities in the past?

Given that Professor Shimada elaborated on this already, I will skip the Tokyo Award. There was no opposition to attract FinTech firms. A lot of financial jargon not understandable to the layman such as, let’s create a cluster, open API, block chain, Tokyo coin, was used. Let’s not be bogged down by words but instead, come up with specific and concrete actions. For example, promoting FinTech means poaching one person from an already small start-up consisting of ~5 people or so and may be very difficult. People may come temporarily with accelerator programs or hackathons. I believe that considerations need to be made to see if specific measures can truly attract the establishment of businesses long term.

As various opinions were shared in the advisory panel, I would like to wrap up this interim review soon. As I have mentioned about Tokyo's vision, Smart Financial City, as the name implies, it is important to specify what to accomplish by when and how their successes would be measured. In addition, other than policies and measures that clearly fall under TMG's responsibilities, it is necessary to clarify TMG's extent of commitment and involvement in driving policies. More importantly, I would like to request each advisory panel member's support to incorporate the various relevant and precious opinions and ideas received to date, into specific policies and actions and not necessarily expand scope of our initiatives.

Atsushi Saito: Thank you. You have just heard a summary of our discussions. However, as I have said repeatedly, or as Mr. Aritomo has said, these recommendations have no meaning if they do not lead to specific measures. I may be scolded for saying so, but it often happens in meetings of this nature that people discuss a lot of things, saying that this and that have to be done, using a lot of difficult words, and the meeting comes to an end, and nothing is realized.

Therefore, what we need to keep firmly in mind is that we need to come up with recommendations that the TMG can execute, otherwise what we are doing is meaningless. But at the same time, just maintaining the status quo will not lead to reforms, so we need to go forward one step at a time. The substance and pace of the reforms have to be acceptable to the people of Tokyo. If the majority of the people of Tokyo are against an idea, then the TMG and the Governor will probably not implement it, and I believe that they shouldn't.

If that is the case, we need to maintain balance and make recommendations that the TMG can realize or else TMG staff will not be able to do anything. We have until 5:05 p.m., another 20 minutes or so. I would like to get your opinions. We do not have time for everyone to speak, so I would like to get comments from a few of the members, focusing in on what should be done now by whom or on strategy. Please raise your hands. It can be about anything. Yes, Jonathan, go ahead.

Jonathan B. Kindred: Thank you. I think it is a good overall summary. One suggestion that I would make, in the regulatory sandbox area there are a number of interesting suggestions but I think it is important to think in a much bolder way as to how to utilize the special economic zone status within

Tokyo for measures that we might take here that are more difficult to implement on a national basis. And I would point to particularly labor law reforms.

And two specific suggestions in that respect would be a legalized framework for severance, so monetary compensation for dismissals which would relieve employers from the risk of reinstatement as a remedy for a dismissal that may be deemed unfair. And the importance of this is if you are a small company that has, let us say, 10 employees and you see an opportunity and you want to take a risk to maybe go to 20 employees, you are more likely to do that if you think that if you are wrong you can more easily bring that size back down. So, this is a measure that should increase the tolerance level and risk of incremental hiring and it is something that the third arrow of Abenomics, frankly, has been unsuccessful in doing since initially setting it out as a potential goal.

And then the second suggestion in this area would be a very carefully crafted white collar exemption for financial services which would recognize the functional way that work occurs in the global financial services industry, which frankly is 24/7. So, implementing a very carefully crafted white collar exemption to create more flexibility around overtime rules while at the same time ensuring that company standards are appropriate in terms of work-life balance and overall quality of employment for employees. So, I would put those out there. And I think it is important to try to be bold with the special economic zones. Shimada-san showed us some of the living standard things that have already been done, but these labor reform measures that I am suggesting would be very, very impactful I believe. Thank you.

Atsushi Saito: Thank you. Professor, please wait a second. I think I would like to ask Sir Roger that you have something to make a comment on that. Please.

Sir Roger Gifford: Yes. Thank you very much and hello everybody, and thank you Chairman and Governor. By the way, can I say a big thank you to your excellent language translators? I think they are doing a fantastic job. I look forward to hearing how they translate that back to you. But I have been discussing some points with the British Embassy in Tokyo and we would be very willing to engage with Tokyo Metropolitan Government in efforts to deliver the financial services market that we would

think is international, innovative and competitive, as well as open and fair. And I think this would look very attractive to foreign companies as they look where they are going to consider – where they look to locate their businesses in Asia.

The Embassy has been working with UK businesses in Japan and they have flagged a number of areas where they think they could be helpful around establishing clear roles, enhancing accountability, establishing pricing and profit and contracting rules based on the benefit to consumers and clients. This is really about eliminating conflict of interest in transactions where, for instance, the providers of administration services to pension funds also enjoy asset management business from the same pension fund client.

It is about promoting products and their suppliers and making sure that the quality and the competitiveness is right. And it is called open architecture, as you know, as opposed to just dealing with firms in the same group, so it means that the interest of the customers or the investors is always put first and there is a healthy competition which we know is always needed for implementation, for innovation.

I understand there is work to be done on a full implementation of the corporate governance and the stewardship codes. We talked a lot about making the tax system more accessible for foreign businesses and working on simplified common rules, standards and practice across the industry. This could be particularly useful in enhancing new areas like green finance which is a revolution which is coming through a lot of the asset management wealth at the moment, and I think Tokyo could be a leader in this area. They would also be interested in working to enhance workforce mobility and making a rich talent pool. And lastly, if Tokyo Metropolitan Government is thinking about setting up a group like TheCityUK, then I and the Embassy would be very willing to work with the City of London Corporation and TheCityUK to support this and to help find a Tokyo solution or a Tokyo idea which could reflect the best parts of TheCityUK which would be appropriate for Tokyo.

The Embassy told me they are looking to provide a further paper on some of the above points before the autumn and they make this offer, and I with them, to try and push this forward. Thank you very much.

Atsushi Saito: Thank you very much. Yes, Professor Shimada.

Haruo Shimada: I'll keep this short.

Atsushi Saito: Yes, short please.

Haruo Shimada: As we proceed to the execution phase, I would like to propose a few things. I think Japan still has room to compete with the world in FinTech. We should seriously consider creation of a visible FinTech center, which is also a sandbox.

Another point is, in the world of asset management, taxes are essential. I believe it is necessary to investigate how far we can strategically work on taxes. What can we do about regional and national taxes in the special zone? I believe this needs to be strategized.

The last point is what Mr. Kindred was referring to. While this is a national issue, the Abe Cabinet in the second growth strategy, addressed issues of pay by performance, financial compensation for dismissal but all were pushed back. The current discussions on work style reform only deals with labor hours and it is unclear what it is targeting. Therefore, what Mr. Kindred said is very convincing but this is not something TMG can tackle on its own. Yet, this is clearly important.

Atsushi Saito: Thank you. As for taxes, we have Mr. Tax here. Would you like to make any comments?

Jiro Makino: Then, just a word.

Atsushi Saito: Please.

Jiro Makino: Excuse me, I'm not Mr. Tax. Tax is about politics. So, as Professor Shimada just mentioned, strategy is extremely important. Chairman Saito has also emphasized the ability to execute. I would like to contribute by gathering as much information to summarize recommendations that are executable by TMG.

Atsushi Saito: Thank you. As many panel members have mentioned, tax is key. I have also been negotiating with the tax authorities and I understand Mr. Makino has been exchanging opinions with people at the top there. With the Governor's support, we should be prepared to make a major challenge on this topic as we intertwine Japan's issues with TMG's as well as society's.

President Reagan in the U.S., if I recall correctly, was able to reduce rates from 45% to 34%. Ten years have passed since then and now, the challenge is from 35% to 15%. The top leader of the country has been cutting taxes by more than 10% over a decade. The UK resembles this too. We continuously say it is difficult, but cannot just continue to say that, so would like to make a good recommendation with all.

Others? Yes, please Kawamoto-san.

Yuko Kawamoto: Thank you. I am happy that we're making progress in the interim review.

Linking to action, as Governor Koike has been saying, Smart safe city, making Tokyo non-smoking can be a major differentiation factor. Also, it's important to have foreign professionals come to Japan but if we could incorporate ideas to develop young Japanese talent, I believe the people of Tokyo will be supportive.

Young people imply FinTech. Coming up with a profitable FinTech model, however, is not easy. As a result, FinTech firms enter using existing players' or incumbents' infrastructures.

Since our advisory panel members consist of powerful members, i.e. chairmen from the Japan Bankers Association, Japan Securities Dealers Association, Japan Investment Advisers Association and vice chairman of The General Insurance Association of Japan, I was wondering if each industry can come up with one idea involving FinTech.

Atsushi Saito: Yes, that's a good idea. What do you think Japan Bankers Association?

Naomi Hayashi: I am Hayashi, attending on behalf of our Chairman. When I spoke with a number of companies in the Silicon Valley, I have heard that there is no FinTech company that has a top share in more than two countries out of the three big markets of East Asia – Japan, South Korea and China, as Professor Kawamoto has indicated. This in turn means that they need to team up with the existing institutions to win the market.

As was mentioned earlier, we would like to continue our active engagement in connecting through an open API. We have also held accelerator programs with Japanese venture firms run by young people and have been receiving very good proposals from them. Through such experiences, I recognized that there are for certain talented young people, who are not necessarily studying in universities in Tokyo but studying in those located around the Tokyo suburban area and challenging businesses there. If we could leverage upon these opportunities, I believe a variety of real businesses can be created.

While I might be talking too much, let me touch upon one more point of establishing a large scale FinTech center, which Professor Shimada mentioned earlier. I totally concur with the idea. After having visited similar facilities in Silicon Valley, I found a major difference from those in Japan. The Japanese facility is very secure with locks in each room. At Silicon Valley, however, the facility is much more open, allowing anybody to come in to observe anything. When I asked if they are worried about security or not, they said, "It doesn't matter. If it's something that will lose its value by just being seen, that has no real added value." I felt that the environment and education must create a huge difference in their output, and therefore I believe financial education is crucial. Thank you for your patience on my long comment.

Atsushi Saito: Thank you. Mr. Iwama of asset management, what do you think about FinTech?

Yoichiro Iwama: Representing the asset management industry, I believe incorporating the improvement of asset management capabilities in the Tokyo Program is wonderful.

As far as asset management is concerned, I think it is necessary to have a program in Japan to develop a group of professional asset managers to achieve good performance independently. I believe getting involved in FinTech is good. It is not only the robot adviser that is much discussed about, but also utilizing big data effectively to enhance the quality of asset management capabilities. This is also useful in strengthening analysts' capabilities.

Atsushi Saito: Mr. Inano, do you have anything?

Kazutoshi Inano: In the Japan Securities Dealers Association, there are 3 members, which are called FinTech firms. They basically provide new smartphone-based portfolio management services for small-lot investment. FinTech services may not be limited to this category, but I believe various services will be developed in the future, with emphasis on small lot, speed and low cost. In order for new services to be developed, we would like to be active in gathering users' preference and request deregulation to governmental authorities as necessary.

Another point on FinTech is how these new firms can do fundraising. As mentioned in the previous meeting, crowdfunding would be probably employed. We would also like to work on further development of the crowdfunding.

Atsushi Saito: Thank you. We have about 5 more minutes left. Does anyone have anything? Please. Yes, please.

Jesper Koll: Thank you very much – the summary is very well done. I'm always very optimistic but there's one thing I would like to say. It's about sense of urgency. Our discussions about FinTech that we just had – this is already conducted in Shanghai and Frankfurt. Globalization will progress further and we need to have a sense of crisis. Let us have a sense of urgency and be determined to accomplish what we can do in one year, two years with responsibility and accountability.

Atsushi Saito: Thank you. That's a good suggestion. Yes, please.

Hiromi Yamaoka: Since we are now asked to focus on possible proposal to be involved in our reports, I would like to raise a couple of proposals in my brief remark.

First, I believe that Ms. Kawamoto's proposal is specific and good. Indeed, many people from the FinTech industry visit our bank and my office every day. The people in the core of FinTech are extremely speed conscious. They would be in Tokyo today, and Shanghai tomorrow. Those FinTech people are now seriously trying to collaborate with various industries. So, just saying that "Tokyo encourages collaboration between FinTech firms and other industries" would be promising and make a huge difference.

Second, as mentioned in the previous meetings and this also relates to what Mr. Shimada has said, I believe it is important for our work to keep a good contact with ordinary people of Tokyo. For example, Tokyo has raised the ideas of "Smart city, Safe city, Diversity". So, if Tokyo could award the firms raising proposals that would realize these ideas, Tokyo would be able to show its own strategy and to stand out globally. As preparation, if we could have a forum where people of Tokyo or foreign tourists coming to Tokyo can make proposals, or can make comments or complaints on available financial services in Tokyo, I think this would also improve Tokyo's image regarding financial services.

Atsushi Saito: Thank you. Does anyone have anything in addition? Mr. Suda.

Toru Suda: There are various issues related to taxes. As mentioned before, I would like to summarize what TMG can do, what we need to request the country to do. Hoping that this could be used as a starting point with everyone's support.

Atsushi Saito: Thank you – yes, please do that. Mr. Kariyazono, do you have anything?

Soichi Kariyazono: Like Professor Shimada recommended, I would also second the creation of the FinTech Center, a large scale innovator center. In addition to hardware, I believe having software is

important. Venture Capital Association would like to cooperate in various activities such as providing space for venture firms and specialists to gather, who to invite and how to operate them.

Atsushi Saito: Thank you. Has everyone made a comment? Oh, I'm sorry. Mr. Taniya please.

Mamoru Taniya: Then, if I may. Just one idea. It's best to have taxes reduced. Since this is not so easy, we could devise a way to increase returns to attract good fund managers.

As I previously mentioned in the last meeting, for successful venture capital investments, we could buy them back in form of bonds from them. If they fail, they can remain as equity. For example, losses from the matched investment amount by TMG would be limited to the initial investment, and fund managers will find this attractive. Taxes may not be changed but the best fund managers may gather. This may be another approach.

For this, we can limit applicable areas. We can specify the scope to FinTech, or even narrower, block chain. We could identify growth areas and provide incentives to returns.

Atsushi Saito: Thank you. Based on everyone's opinions, an interim report will be produced in June. This ends today's discussions. Governor, over to you.

Yuriko Koike: Thank you very much for the energetic discussion. We just heard about the possible establishment of the Tokyo Award from the perspective of ESG. Since Professor Sayama is not here today we can't go into discussions as to the specific area to target—financial technology?—but I think that focusing on the area of ESG was a wonderful suggestion.

We are currently drawing up a concept, which also covers urban development in Tokyo, and it also includes a passage on incorporating the concept of ESG in urban development. I think that if you can find a way to link these concepts an excellent award system will be established. And, I believe it would be quite effective if this award can be cultivated into an international award, by having the participation of not only Japanese companies, but also overseas companies.

And, there is one more thing that I would like to introduce. Here at the Tokyo Metropolitan Government, we are changing the way we work. Digitization is underway—we have finally reached a level where the use of tablets like this are spreading throughout the TMG—and starting from a paperless work environment, we are now moving toward teleworking. Another panel, chaired by Professor Ken Sakamura, has just recently compiled their recommendations.

And, one of the topics discussed over the course of various discussions concerned the various data possessed by the TMG. By releasing data in API format as London did at the London 2012 Games, as opposed to just posting data, by making that data open as an API, applications using that data, such as information on how to take the subway—the easiest route and the fastest route—can be developed. The data most accessed on the TMG website is weather information related to rain cloud movement, and we have various other data as well. Making data open, instead of walling it off, will lead to the birth of new applications for that data. As the basic concept, it is expected that by turning the assets held by the TMG into data form, as just explained, and making that data open, new industries and applications will be created.

Since we have been given similar information at meetings of other panels, and having discussed such topics here today, I see a considerable overlap with what Tokyo is now considering and advancing. I hope to properly realize measures for this trend with a “sense of urgency.” Thank you.

Atsushi Saito: Thank you.

Next, we would like Deputy Director-General Yufu of the Planning and Coordination Bureau, FSA to present.

(2) Presentation by a guest speaker

Financial Policies to Promote Global Financial City Tokyo

Motoyuki Yufu, Deputy director-General of the Planning and Coordination Bureau

Financial Services Agency

Motoyuki Yufu: I am Yufu, Deputy Director-General of FSA. In the interest of time, I would like to begin right away. Please look at the slide that says page 1 at the bottom right.

I am currently an FSA employee but even so, I feel that FSA has experienced a major turning point over the last several years and is changing. Obviously, we are a governmental agency and some FSA employees do not understand the extent of this reform. Also, I receive candid opinions from financial institutions in the private sector that FSA will go back to its old habits. Yet, I believe that the change taking place now is irreversible.

Please take a look at page 1. Our Agency has spun off from the Ministry of Finance. The greatest challenge we had at the time was the recovery of trust. At that time, we were faced with non-performing assets and many financial institutions have failed. The left side shows the 3 prevailing issues.

The right side shows the approach we adopted in dealing with these issues. We emphasized complying with rules and ex post checks. FSA inspectors checked, if sufficient reserves were made against bank loans, one by one. Thorough compliance approach was taken as minimum standard. Based on this approach, we were able to solve non-performing loans accumulated over many previous years and Japan's finance sector was relatively stable compared to other developed countries.

We now believe that if we continued to repeatedly do what we did by rote, we believe there are side effects. At the left on page 2, if we put too much emphasis on "form", for example, we will end up discussing how much collateral and guarantees were put up for the bank loan. Or, financial institutions would be busy creating written evidence to comply, rather than actually complying. This is probably becoming a trend. Also, you can see the word "backward-looking" implying instances where a balance sheet at a certain point of time may be chosen to discuss if capital is sufficient. In addition, the word

“individual elements” indicates that when an inspector discovers a compliance violation, that is the only issue questioned. There may have been tendencies for governance issues hidden in the background to be overlooked.

We would like to change the approach of our discussions as shown in the right, emphasizing “substance” and from minimum standard to best practices. It also says “forward-looking.” We would like to not only look at a balance sheet snapshot but also future sustainability and profitability. We would like to hold dialogs with financial institutions. It also says “holistic view” i.e. rather than punishing each compliance violation, for example, we would like to discuss with financial institutions if their corporate culture or governance system does not have a problem.

Page 3 is about capital markets and asset formation. There is a lot on the page so please take a look at the graphs on the next page.

At the far left, Japan’s most recent household financial assets are reaching 1,800 trillion Yen. The red portion shows cash and deposits. These continue to grow despite the negative interest rate environment.

The 3 bar graphs in the middle show household asset portfolios for Japan, the US and the UK. The blue area represents equity and investment trusts. The area framed with blue lines includes indirect assets via for example, a defined contribution 401(k) plan. There is very little risk assets and too much cash and deposits in Japan’s household portfolio.

What this portfolio implies is shown in the colorful line graph at the right. Looking at Japan first, Japan’s household financial assets grew by 1.52 times over the last 20 years reaching 1,800 trillion Yen. During the same time in the U.S., assets have grown 3.32 times. Converting USD to Yen, the US household financial assets amount to 8,820 trillion Yen. This is a huge difference.

The difference comes from the coated area in the graph. Household financial assets are dependent on demographics but the coated portion represents assets created by assets or investment returns. The U.S. and the U.K. have a significant amount of returns from investments but Japan’s is small in comparison due to low interest rates and investments in cash and deposits.

In such an environment, we believe that investment trusts are very important tools for Japanese households. Page 5 compares the largest and most popular investment trust in the U.S. and Japan. The top 10 by size is shown in descending order every 5 years. The same ones in the ranking are highlighted in red and blue. When you look at this, in the U.S., we see that orthodox investment trusts have always made it to the rankings as long sellers and the fund amount has increased. In Japan, unfortunately this is not the case and the products are primarily short term. The rankings rapidly change and many products aim at short term returns and not necessarily suitable for long term asset growth.

Now going on to page 6, this relates especially to retail businesses, but there exists conflict of interest issues. I will only take up one example here but there are many different types of conflict of interest.

Page 7 illustrates how the FSA goes about solving these issues. It is necessary to combine several different effective approaches. At the very top, the New NISA with preferential tax treatment is available for investments from next January. This might sound strict but the FSA would like financial institutions to be more client-oriented. Lastly, this is not in the slides but as has been previously discussed many times, I believe finance and investment education is extremely important.

Looking at Page 8, this is the new dollar cost average method type, long term, fixed amount, diversified investment, to be introduced. The right shows the new NISA. The existing NISA has been successful. The existing NISA outstanding balances have reached 10 trillion Yen in just 3 years. The number of accounts is total 10 million. Yet, when we look at investments, they do not follow the original objective of growing assets on a long-term basis. From this standpoint, we have decided to introduce the new NISA, making periodic fixed investments.

Now looking at Page 9, since the investment style is limited to dollar cost average method, we have also set strict standards on eligible investment trusts. I will not go into the details here but for example, sales commissions are limited to free ones, the so-called no load type. As a result, of the 5,400 investment trusts in Japan as of November end 2016, approximately 50 met the new NISA criteria. This may have been a culture shock for those in the investment trust industry but we would like to aim

to create new markets where orthodox investment trusts for long term asset formation becomes the norm.

On page 10, we have established a soft law, as opposed to hard law, a principle-based code on March 30 dealing with client-oriented business conduct, as mentioned earlier. Principle-based code is a new approach that has been adopted, for example in the corporate governance and stewardship codes. The principles are not attached today. That is because it only says the most obvious. Yet, doing something that is obvious, not superficially and not only in form, but truly doing it, is extremely arduous. We are not making this legally binding. We would rather like financial institutions to secure full execution through visible self-efforts and creativity by receiving feedback from clients.

From here onward, the next slides are about our corporate governance activities. The first is on Stewardship Code. This code disciplines institutional investors investing in publicly listed companies. The following year, we have established the corporate governance code addressing issues to publicly listed companies.

I believe that in Japan, a large movement has just begun as far as corporate governance is concerned. I do not think Japan was too late addressing corporate governance compared to the U.S. There may be differing views as to early or late, but during this time, we saw few changes and I believe that a large movement can be gradually seen at last.

It has been 3 years since we have developed the Stewardship Code and we are currently reviewing it. Public comments are being received now. We are contemplating some amendments to improve and continue to support the Japan's corporate governance Code as one leg of the wheel.

For example, in a nutshell, we would like asset managers to manage governance and conflict of interest among the various parties involved. In addition, we would like to support stewardship activities to asset owners such as pension funds, which provide funds to asset managers.

On page 13, one of the amendments to be made in the Stewardship Code is on managing conflict of interest. There are 2 diagrams. For example, on the right, a firm that receives funds from an individual

like me usually has a separate corporate department that conducts loans and securities agent businesses. Such relationships that exist with publicly listed companies, should not distort the fund management department's actions. We focus on these points in the amendments.

Apologies to rush through the slides but lastly, perhaps we should look at pages 14 and 15. We already do this now. We believe that the FSA coordinates well with TMG. As has been mentioned earlier, this is the financial one stop service provided to attract financial firms and asset managers from abroad. We would like to integrate and coordinate our efforts with TMG. Unfortunately, foreigners do not perceive Japanese financial authorities to be friendly so with TMG's support, we would like to change that perception.

Page 16 is the last slide. In the beginning, I mentioned that the FSA is changing in many ways. Up until now, finance administration focused on themes such as the stability of the finance system and user protection as shown in the left and progressed toward it. In hindsight, however, from the basic objectives, what lie ahead are issues such as increasing national welfare of people and firms' and economy's sustainable growth. We had the tendency to focus on objectives, while knowing but not looking at such issues. Now that we have confirmed our objectives, we would like to adopt diverse approaches to change the way we regulate.

I've exceeded about a minute, but this concludes by presentation.

Atsushi Saito: Thank you.

Let's go on to exchange of opinions now. I'd like to finish up around 5:50 pm but what do you think?

Would Mr. Iwama like to begin with comments?

Yoichiro Iwama: What we need to do foremost is to observe our fiduciary duties and win public confidence. FSA's Mr. Yufu's presentation today, from this standpoint, was very compelling.

Many frameworks have been created and I think we are heading the right direction but what we really need to do is to create an environment to achieve more by advancing the improvement of our asset management capabilities method and improving performance. I expect and look forward to the opinions and comments from the participants here being reflected in what TMG can do. Since many parties are involved, I would like TMG to clearly indicate what it can do. This will lead to the next course of action and I very much look forward to it.

Atsushi Saito: Mr. Iwama, it's your job to propose what TMG can do.

As Mr. Yufu mentioned earlier, I think the collaboration between TMG and FSA is truly crucial. We're dealing with the big issue that we want to attract as many asset managers to Tokyo as possible. Now, Commissioner Mori is providing comments to asset management businesses with a tough stance. I think this will greatly lead to improvements. I believe the basis is on investor protection.

Asset managers should not profit at the expense of investors. When we attract foreign asset managers to Tokyo, we must remember that funds can be managed in Hong Kong and products be sold in Tokyo. This can happen because Japan has funds. Having only sales companies in Japan does not meet our objective of making Tokyo a global financial city.

Thus, we need to ensure that the asset managers come to Tokyo. This task should be a collaborative effort undertaken by both FSA and TMG. Speaking from experience, it is very difficult for a Japanese asset manager to establish a company in the U.S. SEC does not provide permission easily because the theme of how to protect U.S. investors comes first. I've applied several times but did not receive approval. It is not also easy to sell Japanese investment trusts in the U.S. The inverse is true in Japan. Overseas investment trusts sell relatively well in Japan. I believe Japanese regulatory authorities are more flexible in this regard.

Therefore, we need to be conscious of such aspects and think why Mr. Kindred's company is growing in Japan as we proceed with these discussions.

I may be overstepping here but Mr. Inano, do you have anything to say?

Kazutoshi Inano: Going back to Mr. Yufu's presentation, he mentioned about financial literacy. In our interim review, we also discussed about education to develop highly skilled asset management talent and education for the general public. For the general public, school education is one item.

As previously mentioned, our ideal is to fully introduce finance and economic education at all school levels, with the ministry's school curriculum guidelines to be amended to include finance and economic education. While some progress has been made for grade and junior high schools, as there might still be a long way to the full implementation, we need to create advanced case studies including an experimental project. I believe there are things TMG could do in this arena. For example, such education could be provided at some schools in Tokyo at first, not necessarily at all schools. The Japan Securities Dealers Association would be more than happy to support and provide our expertise for such causes. I look forward to such initiative by TMG.

Atsushi Saito: Thank you. Do we have any others?

Jonathan B. Kindred: Thank you. And Yufu-san, thank you for the presentation. One suggestion I would make in terms of what can Tokyo do to support these endeavors is to consider an incentive program for managers that are looking at new entry or expansion within Tokyo. The incentive program could involve, for instance, seed funding of investment pools from TMG or other related organizations. And in particular in reference to the new compliance standards for the new NISA, obviously the statistic is somewhat shocking that only 50 out of 5400 funds actually comply. So one suggestion there would be why not consider some seed funding for managers that are contemplating setting up new funds that conform to the new standards that the FSA obviously deems to be desirable for long-term capital accumulation in the household sector. And I think this is something that the people overall will benefit from in the long-term.

Then the last thing I would say, Yufu-san, the foreign financial institution members of the IBA actually think the FSA is very friendly, so contrary to the comment you made. And we commend you on the leadership that you have taken to really promote growth in the marketplace, and the open dialog that you have been encouraging over the last several years is very productive. And if TMG proceeds

with the idea of a marketing-oriented entity, I think marketing what the FSA is doing more broadly on a global basis is a very positive thing to encourage better awareness and understanding around the world as to what is really happening here with the financial regulator. It is a tremendous competitive advantage I think for the city. Thank you.

Atsushi Saito: Thank you very much. I hope the TMG can come up with a good incentive or gift and the FSA opens the gates. As more foreign asset managers are invited to Japan, they will in turn enhance the quality of Japanese asset management companies, creating a virtuous cycle. Yes, Professor Shimada, please go ahead.

Haruo Shimada: The previous graph of Japan/US/UK asset formation is very symbolic. When Japan was in the bubble era, although for a short period of time, people were very interested in equity investments. Shanghai about two years ago was in this situation. People became very interested in equities without really knowing what it was. Now, there is no growth (in Japan) for 30 years. The U.S.'s asset is sufficiently growing.

Thus, besides financial literacy, the macro environment and people's interest in it is a major factor affecting asset growth. In the longer term, basic finance literacy can be taken care of in school and I suppose NISA also has a role in this but I would like to understand how literacy levels can steadily be raised.

Also, from a longer perspective, I don't mean to be Warren Buffet but we need to think about issues such as which industrial activities can produce long term returns and what kind of firms have the possibility to grow long term. Mr. Buffet appears to be interested in agriculture lately. He has also invested in Coca Cola for some time. When we talk about the long term, major Japanese companies have grown from very small ones during Japan's high economic growth period. People who have purchased equities during the late 1950's and up to the mid-1960's have increased their value. Ever since, the Japanese have not had good experience in the equity markets. How are these macro factors and people's increased interest related?

Motoyuki Yufu: This is an extremely difficult question so I am not confident if I can fully respond but I believe the macroeconomic environment is fundamentally a large factor. Thus, while Japan's financial literacy may have been slightly low compared to other countries, there exists rational behavior.

Another point that we think is important is that in Japan, many know that investments are not easy. This becomes one hurdle. But again, there are easy investments too. Betting on markets buying low and selling high is even difficult for professionals. Investing a fixed amount every month, a method known as dollar cost average, however, does not require any knowledge. This is not full proof but modern portfolio theory suggests this is an extremely rational investment method. There are very few Japanese investors employing this method. Thus, to fill the gap, we have decided to introduce the new NISA, as one can learn while investing.

Haruo Shimada: What you mentioned now, is it an investment or saving? If monthly investment, it sounds more like a saving to me. Investment is looking at a company and seeing it has future potential so perhaps I should invest more and continue to observe it. Then, we start to learn how to analyze companies. I believe we should emphasize these aspects. Literacy was emphasized earlier but before literacy, one needs to be interested. Interest dampens when the macro economy is poorly performing. I think literacy is about something else.

Also, investment was referred to be so basic, like sleeping and waking up early, eating three times a day, are. I'm not sure if investment falls under this category.

Atsushi Saito: I believe what Mr. Yufu said is a possibility, but as previously mentioned, private investors are extremely clever. They don't invest because they don't make money. As Professor (Shimada) was saying, they invested when money was to be made. So why can't money be made? Although the Corporate Governance or Stewardship Codes were included, this is because Japan's enterprise value (EV) is not rising. Japanese executives were not concerned with increasing EV. This is especially true in the U.S. where stock prices are considered a clear report card for company management. Thus, when the price of a company's stock does not rise, it is the same as revealing to the public that the company is not being managed well. Therefore, when a company's stock price declines

and does not rise, it is an embarrassment and a problem. 3M, for the last fifty years, has managed to pay increasing dividends. I don't think there are any companies in Japan like this. That is why it is impossible to tell people to make long term investments in such companies.

This makes it important to improve the quality of the investment per se. That is what the FSA is attempting to do now, through both the Stewardship Code and Corporate Governance Code. So, if Japanese executives can accept this—and they are gradually doing so—and manage their companies with the objective of increasing enterprise value, this will gain the trust of Japanese private investors and they will start buying. This type of virtuous cycle needs to be created. Sorry for going off the subject.

Sir Roger, do you have any comment on this one? Perhaps, no?

Sir Roger Gifford: I think this is a very relevant and interesting discussion I have to say. I think the quality is exactly the points which we are pointing on. I would come back earlier to the offer which I made earlier to help give a London perspective on this, which the Embassy and we would be very happy to work on. But I have already mentioned that, so I think I do not need to mention it again. Thank you.

Atsushi Saito: Thank you. Please.

Jesper Koll: To talk about the practical level, right, I am in the business of trying to sell the investment funds, ETFs to unsuspecting investors. The comment I want to make here is that financial, the return, where does the return come from? We can have a long and endless discussion. But one point to consider, and this is not necessarily the realm [ph] of the Tokyo government but goes into the financial ecosystem, and if you talk about financial theory long-term investment, the dividend yield, the accumulation of dividends over time is the single biggest determinant of performance, right, because timing of the actual capital gains, even the most pros cannot get this right year-in year-out. There is lots of academic work on this, so dividend, dividend, dividend.

When I explain this in front of Japanese media, right, I got a very interesting comment. They said, Jesper, this is all very nice and well. But do you not have an interesting story? Kinyuu is actually really boring, right? Finance is actually very straightforward. It is an engineering problem, right? That gets solved and you look at the payout ratio, you look at share buybacks, you look at dividends. But the media education, because the media in Japan is focused on storytelling, they want themes, they want hot and cold. Please excuse me, but it is like Donald Trump. Please excuse me.

So, I think part of the education, right? And this is obviously not the realm of the Tokyo government but it is the realm of all of us, right. Educating the Japanese media to be more responsible and to be less focused on stories but focused on financial literacy in that respect. I think is very important. Thank you.

Atsushi Saito: Yes, thank you.

We're slightly early but I would like to close now. Lastly, Governor, could we have a few words from you please?

5 Closing

Yuriko Koike: First, I would like to thank Mr. Yufu for his excellent presentation. I look forward to the TMG continuing to work closely with the FSA to promote our message in a unified voice. And I hope to get results.

When I was a newscaster 25 years ago, I was often asked to appear in commercials, which paid fairly well then. However, since I was a journalist, I did not accept any of those offers. What a shame. The few that I did take on were generally public awareness ads. One of them was for the Bank of Japan, Mr. Yamaoka. Yes, the Bank of Japan ad—I think it was a newspaper ad—contained a message from the commission to promote savings. I don't think I was paid for it. I didn't receive any Bank of Japan notes.

Saving money is now part of the DNA of the Japanese people. The difficult challenge now is how to turn that into investment. Seeing the far right of the chart showing the breakdown of household financial assets over the years, it will be very difficult to shift this to investment and this has been pointed out from quite a while back. It's also part of the Japanese DNA to avoid taking risks, although that in itself is the greatest risk.

So what the TMG is now advancing is, for instance, education to promote a little more diversity in how people think—this is already about to start up in some of the special wards. It will take time, but it's better than doing nothing.

Another is the Tokyo One-Stop Business Establishment Center. We are working with the national government in this as well, and opening offices here and there. This might be a question of which came first, the chicken or egg, but this center makes it easier for entrepreneurs to establish or open business, and this includes people from abroad as well, by giving advice such as “place your seal here,” “submit papers to the Labor Bureau here,” and I wish that not only foreign businesspeople, but Japanese as well, will use this one-stop center more effectively.

Jesper mentioned that this is an issue requiring “urgency.” In order to advance work on this matter a little more strongly, the TMG will, as one measure, begin initiatives in green finance. We issued 50

billion, no that's wrong, 20 billion yen worth of green bonds, which sold out in one day. We plan to issue more because private and institutional investors tend to invest in things if it's clear how the money is going to be used—it's the same for crowdfunding. It's like donating to shrines, where it's noted that the money will be for lanterns, and other things. If it's specific like that, people will put up the money. I think that this can be used in many various ways for companies and startups. We had tried the angel taxation system, but I have heard that people don't invest money here because if they do, it's subject to national taxes later on, Mr. Makino. I don't know if this is true, but everyone is, how should I say it, very cautious about this.

I've mentioned this before, but now, the world's largest hotel chain is Airbnb, the world's largest taxi chain is Uber, the world's largest retailer is Amazon, the world largest video site is YouTube, and the world's largest advertising agency is Google, and Twitter and Facebook. They all popped up in the last 10 or so years, and at first only a small number of people invested in them, but this expanded rapidly, and now, there are many with a market value surpassing that of Toyota and other major companies. So here, we have to stop looking longingly and doing nothing.

What are you going to do with 1,800 trillion yen? The TMG will work on the educational part, and work in solid cooperation with the central government to implement concrete actions like issuing green bonds, while hearing your views and referring to today's interim review. No more NATO is the goal of this panel. This isn't the North Atlantic Treaty Organization, but No Action Talk Only. Ending this is our goal. Your ongoing cooperation will be highly appreciated. Thank you.

Atsushi Saito: Thank you. I'm sorry to have hurried everyone today. We're early by 7-8 minutes but I would like to conclude today's meeting. Thank you very much.

(End of the minutes)