

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

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Mr. Takahiro Matsushita, Deputy Director General, Office of the Governor for Policy Planning, Tokyo Metropolitan Government: Now we are going to start with the first meeting of the Advisory Panel for Global Financial City Tokyo. I am Takahiro Matsushita, Deputy Director General of the Office of the Governor for Policy Planning of the Tokyo Metropolitan Government and the secretariat. Before we select the Chairman, I will act as the coordinator. First, Governor Koike.

Ms. Yuriko Koike, Governor of Tokyo: Thank you for your introduction. My name is Yuriko Koike, Governor of the Tokyo Metropolitan Government. Thank you very much for attending the Advisory Panel for Global Financial City Tokyo despite your very busy schedule. Let me give some words on the occasion of the opening of the meeting.

We have many busy people participating here. Sir Roger, Mr. Koll, Mr. Taniya are participating from London, California, and Hong Kong.

Thank you very much for joining us today through this video conference. Thank you very much.

And in this meeting, to recover as an Asia number one financial market as we used to be in the past is one of our targets. More than 20 years ago, I was an anchorwoman of the World Business Satellite, and at that time the Tokyo market was very active, and 3 billion shares was the turnover each day. That was the news that I used to report. The market was extremely active. But unfortunately, the market, rather than the speed of Tokyo advancing, other countries like Singapore, Hong Kong, Shanghai – their speed was faster than Tokyo, should I say. And gradually Tokyo's activity fell. And I hope that we can make Tokyo once again be back into an international financial city which is active. And also, another purpose is to make Tokyo an environmental advanced city. So, these two together, I call it, 'Tokyo Smart City.' That is the objective that I have set.

And in financial related industries, the ratio of GDP in Japan is less than 5%. On the other hand, according to The CityUK – in the UK, the ratio of GDP is 12%, which is occupied by financial-related industry. Under Abenomics, the target is to achieve 600 trillion yen GDP by 2020.

To support that target, activation of the Tokyo financial market is important. It is currently 5%, in the UK, 12%. And Tokyo is 5%. If it doubles, that would contribute to a 30 trillion yen increase in GDP. And to do that, activation of finance for Abenomics and also for Tokyo is something that is essential.

And the theme of Global Financial City Tokyo is something that has been discussed for quite a long time. Unfortunately, to put it into practice, there are a lot of obstacles. For example, what is the difference from a global standard? Or there may be business practices or regulations, or tax systems – from that perspective, how much is current Tokyo competitive internationally? And what should be the desirable situation in Tokyo? I hope we can have a discussion about it.

I hope we can go into the substance of the problem such as invisible entrance barriers. We have participants from banks, security firms, asset management companies and fintech, from both Japan and overseas.

I have been saying Tokyo people first. We should promote investment in Tokyo and make sure to increase the benefit of the Tokyo citizens.

I hope there will be discussions on fiduciary duties in the aspect of what is best for the investors. I hope that I can have your understanding of basic policies and of this orientation. I am looking forward to your frank comments and suggestions. I hope that from this meeting, we will be able to make one step forward. I hope that this meeting will yield concrete results and fruits. I am looking forward to your cooperation and your good advice, thank you.

Mr. Matsushita: Thank you very much, I now would like to introduce the members of the panel. I would like to introduce in the order of seating from the right-hand side of Governor Koike; Chairman KKR Japan Limited, Mr. Atsushi Saito; Representative Director, The Consortium for Japan International Asset Management Center Promotion, Mr. Keiichi Aritomo; And through the video conference, we have Chair, Green Finance Initiative, City of London, and UK Country Head, SEB, Sir Roger Gifford. And also on video conference, CEO, WisdomTree Japan Inc., Mr. Jesper Koll. And also on video conference, Chairman & Founder, MONEY DESIGN Co., Ltd., Mr. Mamoru Taniya. Chairman, Japan Securities

Dealers Association, Mr. Kazutoshi Inano. Chairman, Japan Investment Advisers Association, Mr. Yoichiro Iwama. Chairman, Japanese Bankers Association, Mr. Takeshi Kunibe. Vice Chairman, the General Insurance Association of Japan, Mr. Jiro Makino. Chairman, Japan Venture Capital Association, Mr. Soichi Kariyazono. Professor of Waseda Business School, Professor Yuko Kawamoto. Representative Director, Integral Corporation, Mr. Nobuo Sayama. Director-General, Payment and Settlement Systems Department, Bank of Japan, Mr. Hiromi Yamaoka. Secretary-General, International Bankers Association of Japan, Mr. Paul Hunter.

Due to the interests of time, I cannot ask each of you to speak with us, but at this moment, I would like to ask Sir Roger Gifford to say a few words.

Sir Roger Gifford, Chair, Green Finance Initiative, City of London, UK Country Head, SEB: Thank you and good morning, and what a pleasure to be joining this very interesting group. My name is Roger Gifford. I lived in Tokyo between 1994 and the year 2000. At the time, I was head of the European Banks operations in Tokyo, the Swedish Bank SEB, where I continue as the head of their European Office in London today. I am very active with a body that runs the square mile of London, the City of London Corporation. I am very proud to have hosted Mr. Abe twice here in London at both a dinner and at his first major international speech, which he gave soon after he was elected four years ago. I am also active as an Alderman, as an elected member of the City of London, so I am very familiar with the City, UK, and I chair various initiatives within the City of London Corporation.

I have visited Tokyo every year for the past 17 years, also as Lord Mayor, with a business delegation. So you can tell that I truly love Japan and wish for the very best for this project.

In Tokyo, I worked mostly in commercial banking, mostly to do with subsidiaries of European Companies based in Tokyo, but we also operated in the foreign exchange markets, the bond markets, the money markets. And we ran a highly efficient operation, with many of our support staff based outside of Tokyo, often in Singapore or in Hong Kong. This experience was very good. The Japanese banks were having, perhaps a difficult time then, we were a small mosquito on the back of an enormous elephant. We were quite profitable, so I was very happy with the operation.

I have many thoughts to share with you about that time, and also about the success, or potential success of Tokyo as a financial center, but perhaps we will come onto that in due course during the discussion that we are having this morning, so perhaps I should stop there. Thank you.

Mr. Matsushita: Thank you very much. Next, we are going have an explanation about the subject of the meeting. Please look at the material called number one.

This explains the purpose of setting this meeting. And for the current schedule, by May, we are going to make an interim opinion, and the final opinion will be submitted in November.

As for the procedure of each meeting, we would like to have two or three members making a ten-minute presentation at each meeting.

Please look at material number two. This is the outline of the establishment of the advisory panel. In principle, this meeting will be open to the public.

Next, we have to select a chairman. As we have consulted with you before, we would like to ask Mr. Atsushi Saito, Chairman of KKR Japan. Do we have any objections?

Then, Mr. Saito, I would like to ask you to chair this meeting. Mr. Saito, could you make some greetings? And then I would like to ask you to moderate.

Mr. Atsushi Saito, Chairman, KKR Japan Limited: Thank you very much. This is Saito. It is a great honor for me to serve as the chairman of this advisory panel. I certainly appreciate your kind understanding and cooperation. Due to the interest in time, I would like to move on to today's program. In order to exchange views on how to proceed forward, the Tokyo Metropolitan Government has prepared a document which is titled, "The status of the Japanese financial sector in the world." So I would like to ask the secretariat to please explain this handout. Then the secretariat will explain this material.

Secretariat: The handout is number five. Please look at page two. First, the global financial center's index for 2016. For Tokyo, the ranking is number five. The ratings are 734 points. The breakdown is shown below. In almost all items, the ranks are number five or seven.

Next, page three. Business environment index – the ease of doing business. Japan, as you can see, is ranked number 34, and the breakdown is shown to the right. In terms of starting a business, rank 89; getting credit, rank 82; taxes, 70. As you can see below, the Abe Administration aims to achieve the position within the top three ranking by 2020.

Next page, the tax rate. Tokyo, New York and other cities are compared. At the top is the corporate effective tax rate – Tokyo, 30.86%; London, 20%; New York 45.6%, and then Hong Kong and Singapore are more low. Moreover, Hong Kong and Singapore – their countries say no tax for some of the items.

Next, page five, the stock market. Tokyo, New York, and other cities are compared in terms of the size. Tokyo is very large. However, out of the list of the companies, foreign companies are only nine, very small compared to other cities.

Page six, outstanding corporate bond balance comparing Japan and the US. The US is about fifteen times larger than that of Japan.

Page seven, corporate bond holding by investor type comparing Japan and the US. In the case of Japan, banks hold nearly half. In the US, insurance, pension funds, investment trusts occupy the majority.

Page eight, this is the foreign exchange trade volume. The highest one in the UK, and then the USA. Japan is not growing that much at a low ranking.

Next, page nine, derivatives – trade volume, also we can see a same trend.

Page ten, the number of foreign banks in the country. On the right-hand side, Tokyo is only one-fifth that of London, 56 foreign banks.

Page eleven, the number of asset management companies, also similarly, the right-hand side is Japan and you can see that the number is very low compared to Singapore and Hong Kong.

Page twelve, asset manager's location in the Asia-Pacific region. You can see that the majority are located in Hong Kong, Singapore, and Australia. Japan is 9%.

Page thirteen, the investment amount to fintech companies by venture capital – as you can see on the bar graph, Japan is on the right side, 73, very small. When compared with the US, Asia, UK, the level in Japan is very low.

Page fourteen, situation of household financial assets. As you can see on the right-hand side, insurance and pension funds level is similar, but the cash deposits make up the majority in Japan. On the contrary, in the US and Europe, equity and investment trusts occupy the majority. In the case of Europe, the trend is in between the two. That is all. Thank you.

Mr. Saito: Thank you very much. That presentation was in a rush, so it might have been difficult to understand, but we are accustomed to those numbers, should I say. But the problem is that the current administration – Japan's rank is number five or number 30 something – about twenty years ago, as the Governor said, in the past, Japan was among the top 3. And IT and global theme developed in the last two decades, and now we are facing such a big gap. On the theme of IT and global, Japan was not able to participate in the theme, Tokyo was not able to do so. That is the reason why the Governor proposed to hold this meeting.

Now about the discussions of this meeting and how to proceed with this meeting, I would like to briefly outline the points so I think there is material distributed to you. If you could please take a look at the material that says points of issue for study by the Advisory Panel for Global Financial City Tokyo, of some of the things that the Governor alluded to earlier, I have separated them into three sections, three areas.

One is things that are related to the business and living environment, how are we doing compared to other countries? And this will involve taxation issues and regulations, language barriers, and better education on investment. That is the first area.

The second area is to encourage market participation by new players. There are a couple of impediments, should I say. It is funny to say, but there are so many Japanese professional investors in Japan who are based in Singapore and Hong Kong, and they are trading in Japanese equity and so forth. There are so many of them out there. The share of the Tokyo Foreign Exchange is about seventy percent and roughly speaking, about half of that is dealt by Japanese investors who are based in Hong Kong and Singapore. Why would they be based outside of Japan without being based in Japan, and why can't we bring them back to Japan? That is another topic.

The third topic is how to build a market that is friendly to the world's investors. There are various ways to capture this, but one way to think about this is through the enhancement of fiduciary duty, as the Governor said, and the JFSA is also quite active in this area – the corporate governance code, I have included this, but this something that would need to be addressed in the short term.

So I have separated topics into these three main areas, and I hope to engage in a very open and frank exchange of opinions with you. But before I move on to the exchange of views, I have to be mindful of time.

Professor Sayama will have to leave momentarily, so I would like to invite him to make some contribution.

Professor Nobuo Sayama, Representative Director, Integral Corporation, Professor of Graduate School of International Corporate Strategy of Hitotsubashi University: Thank you, I am Sayama from Integral.

I am working with a buyout fund, few years ago, for fundraising, I went to Singapore and Hong Kong, and there was no one in charge of Japan, and the person in charge of China was also working for Japan. It means that there is almost no interest shown towards Japan, I was very disappointed. I am still working

on fundraising, and the situation has changed recently, they are showing interest towards Japan now, but unfortunately, the interface for investors is Singapore or Hong Kong, so the managers I just mentioned, they must feel that it is not convenient for them to live in Tokyo. I must leave immediately, but in the case of a buyout, to acquire the management, that is the purpose of my investments. So from that position, I hope I can make contributions. Thank you very much.

Mr. Saito: Now, we have more than 45 minutes for discussion, so now I would like to ask for your comments. I hope you will actively participate in the discussions. I do not know what will be the ultimate outcome. In November, we will sort out your comments and that will be reported to the Governor. But it is not necessary to agree on one point of view. There may be different points of view. We can provide several opinions in parallel. Please don't hesitate to mention your views.

Before getting your opinion, there is a material distributed to you from Mr. Aritomo. Mr. Aritomo, could you explain your experience?

Mr. Keiichi Aritomo, Representative Director, The Consortium for Japan International Asset Management Center Promotion: I am from the Consortium for Japan International Asset Management Center Promotion. My name is Aritomo. I guess the name of the organization is too long, so we call ourselves JIAM instead. I have distributed the material to you.

On the first page, this describes quite a unique situation in Japan compared to the rest of the world. There is nothing completely new about this, but there is 1,746 trillion-yen worth of household's assets, of which 52%, or more than 900 trillion yen, is kept as cash or deposits, and this balance of cash and deposits is almost equal to that of the United States, it is a huge amount.

This suggests that very little investments are made. What are we number one in, in Japan? There is not much I can boast about, but the elderly rate is number one in the world. The speed at which the aging of the society is progressing also has been number one until very recently, and we have been surpassed by Korea. So aging of the society is very much advanced, and the ratio of the people who are dependent on public pension benefits is 68.5%. The scale of the public pension is the largest in the world. GPIF –

outstanding balance is more than four times that of CalPERS, which is the biggest pension fund in the United States.

With the negative interest rate or low interest rate situation, only by investing mainly in government bond and corporate bond as we have been doing in Japan, we would not be able to compensate with the aging of society. It is against this background that we have established JIAM. It is not the first time that we are talking about the international finance center here in Tokyo. I believe the Hashimoto administration already talked about that. In 2014, there was a task force for international finance center, and there was also another meeting to discuss that, and also working group to discuss asset investment communities. This continued from September of last year until June of this year. I guess the name of the meeting is a little bit different, but I hope that this time will be an opportunity for us to truly realize an international finance center. How are we different this time? I think there are three things that I can speak about.

One part of that is the report was first written in English and translated into Japanese. This is important because the Japanese language would hold even without the subject, but in English, you would need to have the subject – who is going to do what until when? That has been clearly written in the report. This is very important. If we are not able to find who is going to be the owner, then we have temporarily written “JAIM will”. Otherwise, it will not become a statement in English. We are very serious about this.

Experts in the past used to get together in a room and have discussions in a closed session, but we are very open. We go out to Japan and ask people to get involved.

The third is about fintech and asset management companies – we have received input from them. What we write in our report is not based on speculation, it is based on the real input, real true voices.

If you could skip all the way to page four – in February, march, and the beginning of November – we have had interviews with these 126 companies. These are actual companies that are engaged in asset management operations outside of Japan, which account for about 55 of the 126. That forms the foundation of the report.

On page five, of the 55 companies, 25 companies, or 45% of the asset management companies have shown their willingness to come to Japan and enter the Japanese market. Compared to what we heard in February and March, these numbers have actually grown, so I think this is a favorable wind for us.

The types of asset management companies that we should invite to Tokyo are independent type, middle-size companies, and alpha is not scalable, so big players cannot generate much off us, so we are thinking of inviting medium sized companies. However, the ones who are showing interest in coming to Japan are more the big players. In order to come to the Japanese market, without knowing whether they will be successful or not, they have to have a certain scale. So assets, the scale of 5.6 billion or so, are showing interest in doing business in Japan.

Page six shows you from A to Z what the needs are. A is taxation and b is business opportunities, and C is simplifying the entry rules and process, and D is living environment, E is operating costs, and F is eliminating language barriers, and G is about ensuring human capital and financial literacy.

If we are able to overcome these impediments, the businesses we have interviewed will be willing to open up an office in Tokyo.

Now from page seven, these are the true voices, the real voices. Due to the interest in time, I am not able to cover everything – as you can see this is a non-exhaustive document. These were some of the very frequently heard voices. These are not my personal views – these are inputs that I have heard over the course of the interviews.

The corporate effective tax, if it comes down to 20%, which is higher than Singapore and Hong Kong, this could make Japan a very attractive market some said. And in order to not be taxed by Japanese authorities, some of the businessmen are avoiding being taxed in Japan by calculating days of operations.

The third is very important and very famous word, which is never die in Japan. If they die in Japan, they would have to pay a huge inheritance tax. When I went to interview in November, there were some who

said I cannot die in Japan, never die in Japan. So I think that we would need to change the mindsets of the people – and I think that we would need to enlighten them.

The terminology – special economic zone. This is frequently heard terminology, but it is difficult to know what it means. People say that it is about relaxing the floor space area, but that has nothing to do with investors, so what kind of professional tax system is there associated with the Tokyo special economic zone – that is what some people want to learn about.

About providing business opportunities – many people come to Japan on business trips, but they have difficulty meeting the public pension funds. When they come to Japan they are told to first go to greet trust banks. So they ask, what are trust banks? What are they doing in Japan? So this can be a kind of business in Japan that can be kind of difficult to explain.

There are not many opportunities to meet investors. Even if it is just to make an introduction to the pension funds, they need license type one and/or two – they have not yet even decided to get a license, but why do they need a license just to talk. I often hear such questions.

There is a manager entry program for the public pension funds, but the requirement of track record and outstanding AUM is too high, so only big asset managers can participate. And pension consultants and fund rating agencies, are quite influential in Japan.

Page nine, is about the entry procedure, or entry rules. But the rules are available in most of the cases only in Japanese, making it too difficult to understand, and it takes too much time.

Page ten, this is also often said, they want to bring their nanny with them, but can their nanny get a visa? And also, in terms of healthcare, they want to get healthcare services in English. That is another requirement and also a question I often receive.

Page eleven, this is about the net asset value calculation, which is a calculation method unique to Japan. So the global experience and global human resources cannot be staffed in Japan, and the criteria for outsourcing is not clear. These are also some of the comments that I hear.

And the human resources, financial literacy – human resources who are bilingual and good at asset management is scarce, and even if available, is quite expensive. There is a lifelong employment system in Japan, so this may not be appropriate for making investments. We have a lot of people from the media present here. It seems that there is too much negative publicity about hedge funds, so alternative investments may be difficult to develop. P

There is a high level of education provided in Japan, but there is not much education about investments provided. The lifelong employment system and the withholding taxation system are systems that make it difficult to have a better understanding of asset management.

So in that situation, for the way forward, we want to continue to attract foreign operators, and we want to listen to their voices, and the question is how do we respond to such feedback? I think that is an important point about this meeting. Thank you very much.

Mr. Saito: Thank you very much. Quite a broad range of issues were raised, and those present here, I believe Mr. Inano, Mr. Kunibe, and others, you are all familiar with these questions, because I think have for a long time discussed with FSA or the Ministry of Finance, but this time, we hope we can come up with two or three subjects of what should be done in specific terms.

Now, going forward, we are going to start the real free discussion. Anyone, who would like to start?

Mr. Takeshi Kunibe, Chairman, Japanese Bankers Association: First, thank you very much for inviting me to this meeting. Now as was explained in the papers of the establishment, to get back to the position of Asia number one – global financial market. I strongly agree with that purpose. In doing so, when we say global financial city, what is the meaning of global financial city? That should be made clear.

To make Tokyo a global financial city means, for example, Indonesian companies raising fund in Tokyo and using those funds in Indonesia – in other words, Tokyo to actively participate in the money flow in Asia as a financial hub, and to have more foreign financial institutions in Tokyo. There is a large volume of deposits in Asia, so the Tokyo market should link the deposits available in Asia to the demand for funds in Asia. That is the role to be played.

That will create employment in Tokyo, and also the financial industry will become a growth industry. So in your notes about the discussion, about the points that are mentioned here, in addition to that, how can Tokyo become an Asian financial hub? How can Tokyo be involved with the money flow in Asia? I think those points too should also be added.

As Governor Koike mentioned at the outset, during the bubble economy, the Japanese equity market and domestic market greatly expanded, and the response to that, Asian headquarters for foreign financial companies were shifted to Tokyo. But that depended on the massive domestic financial market. So it is not a real global financial city. As a result, after the collapse of the bubble, what happened? The domestic market shrunk, and the foreign financial institutions, unfortunately, their headquarters functions were transferred from Tokyo to Hong Kong or Singapore. I was working in planning section, so I saw that myself and felt very sorry for that. From that perspective, to make Tokyo the financial hub in Asia, what should be done? We must discuss the subject, and I hope I can make a contribution on that.

Mr. Saito: Thank you very much. That was a very valuable input. Anything else? Please feel free to comment. You have been able to find time out of your busy schedule, so I would appreciate, certainly, any input.

Mr. Kazutoshi Inano, Chairman, Japan Securities Dealers Association: Allow me to speak up. In order for the finance market of a particular country to grow sustainably, there are a couple of things that we need to address. It could be the accounting system, the legal system, the market infrastructure, including the securities exchange, and also the players of the market as well as the regulatory authorities need to strike a good balance. Those are some of the things that would enable us to achieve sustainable growth.

Looking at Japan, I think we have, to a certain extent, fulfilled these conditions. As we heard from Mr. Aritomo, we have big financial assets in households, which total 1,746 trillion yen. There is also the presence of big pension fund organizations like GPIF. So what I am trying to say is that we have the fundamental conditions met for growth, but as everybody else is saying, our international presence has not been improved significantly.

When we talk about being an international financial center, it is true that there are weaknesses for Tokyo. We need to clearly and accurately understand what the weaknesses are and then think about how we should change the direction going forward. I think that is a very important and sensible attitude.

However, what I am feeling these days is that, when we look at our own market, I think many people are looking too negatively. In our discussions going forward, of course, our discussions will focus on how to address the weaknesses, that will need to be done, but in the meantime we also need to shed light on the strengths and the positive factors, those aspects will also be very important, and I would certainly be very happy if I could make some contribution from that perspective.

In the securities and asset management industries, since 2014 we have held the Council for Tokyo Global Financial Center Promotion Activities, and subsequently we have held the Working Group on Asset Management since 2015. As presented by Mr. Saito, many of the things that he has pointed out have already been taken up in our past meetings and so forth, so Mr. Saito's perspective and our perspective are on the same page.

With regards to three things that Mr. Saito has already talked about, I would like to share with you what we are doing.

Number one is about providing financial and economic education in Japan. Stable asset building through self-reliant efforts becomes increasingly important for individuals in Japan, so raising the financial literacy of the general public is deemed as one of the agenda items. Improving of financial literacy will also lead to further vitalizing the financial market in Japan.

In our industry, what we are doing in terms of financial and economic education – we are providing textbooks and materials to the educational facilities, holding seminars and dispatching lectures for such purpose. To further enrich school curriculum when it comes to financial and economic education, we have made requests that MEXT (the Ministry of Education Culture, Sports, Science and Technology) should revise the ministry's school curriculum guideline, but the revision would take time, so it is also very important for us to take a grass-roots effort by asking primary schools and junior high schools to spend maybe one class on Saturdays for basic education on the economy and finance. It is important for the national government to address these things, but also for the Tokyo Metropolitan Government to think of what they can do taking advanced effort in this area, I think, is one way we can contribute.

Also, from the service providers perspective, I think this is very important to make sure financial literacy will penetrate in line with level of each investor's knowledge. NISA was introduced a few years ago, and junior NISA was introduced this year. NISA and Junior NISA has opened up ways for small size investments.

Through just knowing about the system and then eventually using the system, financial literacy of first-time investors could be enhanced.

Opening up of NISA accounts at the end of June this year is 10.3 million. So it has reached about 10% of all the potential customers, of which, 20% or more are supposed to be beginners of investment. Housewives and public servants will also be able to have access to the individual-type defined contribution pension plan (iDeCo) next year. With these new systems available in the market, it is best to ensure that we collaborate in order to improve financial literacy of general public.

Number two is about promotion overseas. We have a rich financial base, and we are number one in Asia in terms of size of business entities. It is very important to communicate the attractiveness of the Tokyo market to the rest of the world. Our association, since 2008 – London, New York, Hong Kong and Singapore – in these major cities around the world, we have been holding Japan Securities Summit, which is an IR summit. Mr. Paul Hunter has been very cooperative in organizing these events. We have been inviting institutional investors and people involved in the financial area to learn more about the Tokyo

market. We held the event in New York in last March – keynote speeches by representatives from the FSA and JPX, and panel discussions on the Japanese economy and capital market were conducted there.

These should not be temporary efforts. We need to do this on a continuous basis. It needs to continue over many years, and I think it is a good idea for each of us to proceed with various initiatives, but at the same time, we need to understand the big picture to ensure that different entities and organizations will collaborate together.

Public-private partnerships are I think, very important. I hope to seek opportunities to collaborate more with Tokyo Metropolitan Government.

Related to number three, revitalization of the corporate bond market – as explained earlier, the Japanese bond market, compared to the United States, is very small, and companies with high credit only have access to the corporate bond market. We need to provide more financing options for private companies as well as to provide attractive products to the investors, which means we should diversify the issuers of corporate bonds. We need to identify various issues related to that and also ensure that the corporate bond market is secure, and also make sure that we have good transparency in terms of information provision. So, highly transparent and highly liquid market – that is what we have been seeking. What we have been doing recently is to promote the issuance of corporate bonds by low credit companies. The support for bond holders had not been quite sufficient in the past, so we have established the new system, Bond Supporting Agent, in order to provide practical support for the bond holders. Also, in order to enhance the price transparency, we have started to disseminate information of corporate bond transactions. The scope of issues to be disseminated is currently limited, but we intend to expand it going forward. We will promote further use of these new systems and review them where necessary. That is all from me, thank you.

Mr. Saito: Thank you very much. So the efforts taking place right now were introduced. Mr. Koll, you are sleeping? Or, Paul, or Mr. Gifford, whoever it is, please raise a voice.

Sir Roger: I could make some comments if Jesper does not cut in before me.

Hello again. I think this is a very interesting discussion, and even though it is now 20 years since I worked in Tokyo, much of the discussion sounds very familiar, I must say. But my experience—my own personal experience—was actually much better than some of the comments that have been made. When somebody comes to live in Tokyo, to experience the system, I think it is better than it looks from the outside. And I similarly think that when people come to London, they think it is going to be very easy, but when they actually experience London it can be quite difficult. It is just about how things appear.

I think that, first of all, it is important to differentiate or to say what does an international finance center mean, if you look for instance at the foreign ownership of local assets, in the City of London about 75%—three-quarters—of the available office space is held in foreign hands, not in British hands. That is mentally something that took some time for the City of London to absorb, to become used to this; but it is now normal, it is now accepted. With it, the number of foreign people working here, the number of foreign passport holders is very high, and that has to be something that is socially accepted—that there will be this cadre, this group of senior people working in an environment where they are clearly very well-paid; they are wealthy people in a different sector of society. The society has to be able to absorb that. It is just a point to make.

I think there is also an important point to be made about differentiating the product sectors. Personally, I am unsure that you should be looking to attract commercial banking, lending banking to come to Tokyo, because in a sense that is a much more global game already. But in London, looking at the markets where you have trading of every different type of instrument, you also have very important legal services, maritime services, accounting, all of which are very important for the concept of a cluster, a grouping of services which then feed off each other and make a much more active market.

I think you could also look at different models. New York, for instance, represents a very large domestic market, and it has a rather limited international one, and yet it is perceived to be very successful. London is exactly the opposite: we have a rather small domestic market but a huge international market, based in London—also very successful. Two very different models that are quite hard to compare.

I think it is also important to say that successful cities, nowadays, I think are the best-connected cities, through cooperation, collaboration, and connectivity are key. London cooperates extremely well with Dublin, with Luxembourg, with Frankfurt, with Edinburgh and Milan. These are our partners. They are not our competitors, they are our partners. Though people operate in London, they might book assets in Dublin, they may list new issues on Luxembourg, they may operate their derivatives operations out of Frankfurt, and they may have all their support staff in places like Edinburgh. So this is a very important point to make, that this is not about competition between centers; the question is, how well connected are you to other centers? Being as well-connected as London, that is the future. For us, that would be the key.

The last point I would make is that although the negatives need to be sorted, Tokyo has many natural advantages. It has the rule of law. It has political stability. It is a safe haven for foreign assets. It has a fantastic record of investment in technology. And it has, if I may say so, an excellent living environment; rather higher, I would say, than in London. These are factors that you do not always know before you have experienced them. But I think that in any promotion of Tokyo, I would say that it is important to play a positive story. Yes, the negatives exist and they should be sorted. But it is the positive side of the many aspects of living and working in Japan that... perhaps for you around the table, I can say even more clearly that these are very good things that need to be built up. One thing that we spend much time and money promoting in London is our soft power, so the investment in culture, in the arts, in music, which also I know is shared in Japan. Tokyo can be a wonderful place to live and in many ways is a well-kept secret for the foreign communities. It is a safe place for children to grow up by comparison with, say, places in... I should not mention names to make comparisons with, but there are many other places in Asia which are not such safe places for children to grow up. You have good schools, you have safe neighborhoods. So I think it is important to play up the positive side as well as to talk about the things that need sorting.

Personally, I was very pleased to see the asset management paper, because it is my belief that asset management could be the great success story for Tokyo, possibly more than banking as such. But I emphasize again the importance of having a cluster of different services, all the different services that go together with operating a very efficient trade hub. If you like, Hong Kong is very clearly the gateway to China; it has identified what its success needs. Singapore has identified a very clear success strategy to be

a regional hub, supporting trade finance. What is the success desired by Tokyo? Is it to look like New York? Is it to look like Singapore, to look like London? What is the model that would be best achieved? I think that is an important question. Thank you.

Mr. Saito: Thank you very much. Mr. Hunter?

Mr. Hunter: Paul Hunter from the International Bankers Association of Japan. We represent 53 foreign banks and security companies from 20 countries throughout the world. I agree with many of those points about defining what sort of financial center you want to be. There is more than one type; there is more than one model. Do you want to just rely on deep domestic markets, which has obviously been the role in the past?

Roger mentions very eloquently many of the points about living in Japan—and of course, I have lived in Japan for a number of years, and found it a fabulous place to live. But people move here and firms move here to make profits. They have to be profitable. They do not move here because it is a nice lifestyle. So I think that is the bottom line.

I want to congratulate Governor Koike on her ambitious new agenda, but you rightly said that this has been a launch that has come a number of times, and I think the foreign investment community has watched from outside and said “This is another launch. What is different this time?” So if you are having an ambitious agenda, I think you have to follow through on that agenda.

There are three important things I think to look at, and I would support Saito-san’s outline. They are tax, the aggregation of the regulatory and bureaucratic environment and I would also mention flexibility in the labor market environment.

What I think some of the competitor cities have done very well, notably perhaps Singapore, is the whole of government response. It has looked across the whole of government regulations and said: “We positively want to entice people to come here.” So for example when you think about the tax and visa regime, you think of them in the round; you do not think of them in silos. I think because this is a big

multidimensional country, unlike those fleet-of-foot city states... it is a truly developed economy, but it also means that it is a bit unwieldy to bring all the different parts of government together.

So an ambitious agenda would be looking at... if you are going to introduce an inheritance tax, think of the impact it is going to have on the financial investment community. As Roger noted, it will bring in a different genre of people; there will be many more people who will be a wealthy cadre of people, who will be slightly different to the norm. So it is an understanding that you are looking for something different.

Mr. Saito: Any comments? Thank you. Many non-Japanese believe that Japan is a good country, and I hope we can communicate more about it, but I think to make a cluster as you mentioned, I think that is something lacking in Japan, and in the industry as well. But we are losing against other countries in terms of cluster formation. We are talking about asset management. So Iwama-san, you are a management head; do you have any comments? Thank you.

Mr. Iwama: I think I would like to discuss two points. The asset management industry must develop. It is becoming a very important subject. To enhance our skill and capability and abide by our fiduciary duties must also be implemented to gain the trust of society about the asset management industry. I think that is in the current situation in Japan an important issue. Globalization is also related to that.

I would like also to talk about the development of human resources and the effectiveness of corporate governance and stewardship code. In terms of human resources development and enhancement, to develop literacy, they are interrelated. Literacy means "literacy on the retail investors' side." But human resources are professionals. How many professionals can we gather and how much can we enhance their capacity? The asset management industry is a latecomer in the Japanese market. So the human resources are not that developed to become an Asian hub. "How much do we need?" is the question. I think a lot of effort is necessary.

This was done by Tokyo Metropolitan University. As long as I see the professional program in London, Singapore or New York, people working in asset management companies receive training and education

after work, and this sort of environment is provided in a flexible manner. So there are quite a few exchanges between business and academia. That is one thing we have to realize in Tokyo.

It is important to have new managers. Financial technology (FinTech) is also related to that. For these people to be able to work, to form a cluster, as was mentioned, the investment idea that they have, they must be able to use their ideas in the actual working environment, so how to provide such an environment?

I often go to London and Singapore, and I hear that in the case of Singapore, it is the national policy to do that. They are changing their policy based on the level of evolution. So it is quite flexible in Singapore. I was working in the asset management company and established an office in Singapore, and I hired nationals of Singapore, and to my surprise, the government of Singapore offered us to pay for certain expenses for their training, if they are to be trained in the head office; the travel expenses, training expenses, to be shared to some extent by the government. It seems that this is not being done that much recently; maybe it is no longer necessary.

In the other case, how can we develop the emerging managers? To do that, there must be seed money provided. So how many providers of seed money are available? The infrastructure to develop human resources or clusters, how can clusters be provided? I think there are issues that should be further considered going forward.

About the corporate governance code and stewardship code: the corporate governance in Japan has changed drastically with the implementation of both codes which we appreciate very much. So how much we can further proceed with that is a question. In our industry, in particular, in my association's work, the medium and long-term asset building is important. From a medium- to long-term perspective, the question is how we can make the stock market more energetic. Governance is something that could maintain a good relation between the company and the investors, and rotate in the medium- to long-term. Foreign investors I think are watching with care to see how this situation will proceed in Japan, and under such a situation we must firmly implement corporate governance. In that regard, I hope we can have a lot of advice from you. Thank you.

Mr. Saito: Thank you very much. So within his comments, there was a mention of emerging seed money. Kariyazono-san, anything from you on that point?

Mr. Kariyazono: This is Kariyazono speaking, chairman of Japan Venture Capital Association. I would like to speak a little bit about seed money.

The secretariat of TMG explained about the document, and on the last page, on page 13, there was discussion about FinTech—innovation and FinTech. I would like to make some comments from that perspective of FinTech and start-ups.

In 2015, in Japan, here it says 73 million, but there was 100 times larger than that size in the United States—USD7.4 billion. Vis-à-vis venture capital investment, how much money goes to FinTech in the United States? About 5 trillion yen, so 15% of 5 trillion yen. In Japan, out of the 160 billion, 5% went to FinTech. Looking at these numbers, FinTech is a new category of “finance multiplied by technology,” that is what FinTech stands for, and it is definitely a category attracting a lot of attention. But in Japan, we must say that investment allocation into FinTech is still very small compared to the United States—15% vs 5% in Japan. In the UK I think the number is much bigger than that. So we are lagging behind in this start-dash, so to speak.

In the meantime, how do we stand this year? For FinTech, there is rising interest, so financial institutions and various individual venture businesses have allocated huge budgets on FinTech, exclusive funds for FinTech, and venture businesses have also started up venture incubation programs for FinTech, which is also very active. Against the amount of money there is available, the number of companies is not enough in this area.

The number of businesses is not enough, I said, in the area of FinTech. I have done a comparison with other companies and tried to identify what the differences are. New York, London, these are cities that have put a lot of emphasis on FinTech as a city. It is not just New York and London alone, but people,

money and clusters or building ecosystems are made in such a way that the city is becoming start-up-friendly. That kind of competition I think is seen in the area of FinTech and venture business.

There are start-up-friendly rankings available which compare many cities around the world; unfortunately, Tokyo is not even regarded as one of the cities, so Japan does not appear in these rankings. Finance as an industry was one of the strongest industries in Japan. But in the area of innovation and venture business or start-up business, in the past 30 years, unfortunately we have been trying to be quite active in this industry, but there is a big gap with the United States. We have never been one of the number one players in this industry; we are trying to catch up from way behind. But venture business... and as a country I think we need to have a good competitive strategy so that we can appeal ourselves to the rest of the world. This kind of vision I hope will be created by Tokyo.

In order for cities like New York or London—or Berlin for that matter, in the EU, is a very start-up-friendly city—they are attracting a lot of money and people from overseas. The best practice is I think more-or-less established; looking at the policies and measures of different countries, it is becoming more and more visible: the professional tax system for start-ups, and when the investors invest in start-ups they are able to enjoy various incentives, to make sure there is a good flow of funding. Talking from the cost eco-system perspective, especially for FinTech, the entrepreneurs, engineers, and financial institutions or people who are experts in the area of finance, and also managers, these experts will need to come together as a team to be truly successful in starting up a FinTech company. It is different from internet service companies in the past. A young start-up person or engineer, just the two of them would be able to start up an IT company. But for FinTech, these different experts with different backgrounds will need to come together to be successful.

Mr. Saito: We need to conclude by 17:20. I am sorry to interrupt; I know that there are a couple of people who have not spoken up yet. How about you, Ms. Kawamoto? Thank you very much.

Ms. Kawamoto: Thank you very much. To be a global financial city, researchers so far have commented many times already. I think a lot was already talked about. The ratio of cash is very high, and we have been saying that these are very urgent issues for the last three decades. So with this project, what should

be done? I hope we can come up with one or two ideas. As Sir Roger and Paul also said, Tokyo is safe and clean. So there are many people in the financial industry who would like to live in Tokyo, but why is it that they are not living in Tokyo? We must find that out.

The three points I want to mention are: I have conducted many surveys, and among the people working in the economy, there seems to be a sad mentality that it is not good to make profits through financial methods. It took 30 years to understand the role of chief financial officers (CFOs), but the stance about finance should be changed; as was mentioned, that is related to the education at universities.

Number two: For Tokyo to become a global financial city, will I be able to enjoy something good? People must be able to realize that, to be able to support it. There may be incentives for professionals. But why is it that people continue to keep their money on deposit? Because that provides the best return. So what is good about Tokyo becoming a global financial city? How can we enjoy the benefits? That must be clear, and that is something we must find out.

Number three: We have full-fledged financial services for ‘orthodoxies’, that is, employees and workers who are working in the lifelong employment system. And it is good that the ATM network is well-developed... but non-orthodoxies like venture capital, FinTech, sending money overseas, are not well developed to—that is an area that we must consider more about. That is all from me. Thank you.

Mr. Saito: Thank you very much. We have two more minutes to go. Wake up, so please, I would like to invite Mr. Koll’s opinion.

Mr. Koll: First of all, thank you very much. I think that this discussion has been very good, and I particularly comment on the background papers; there is some very good data in there, and I think that empirical evidence rather than hearsay and emotion is absolutely key.

I just want to make one point today, and that is that the ambition must be much, much higher. Finance stands at the brink of a big revolution. In America, in London, now people talk about how “the world needs banks but not bankers,” and obviously with the artificial intelligence revolution that is happening

right now... It is too simple to say “FinTech”; you know, we are talking about completely new standards being set, whether it is blockchain technology, whether it is robo-advisors... We talked about asset management as a great potential, but asset management in the future may look completely different, because it is going to be done largely by machines. For a financial center of the future, of course it needs to be clusters, of course there need to be linkages to the other financial centers, but the key question that will define the financial future, the key question that will make or break Tokyo’s future role is whether it can define the standard of the new financial revolution.

You know, you cannot be just a follower. And quite frankly, so far in the developments of finances, basically is Tokyo is a follower and is not a leader, whether that is in rules, whether that is in regulations, whether that is in attitudes, whether that is in the oligopolies by the domestic institutions, whichever way it is. But the goal of this committee, I hope, is going to be to set the bar much, much higher—that Tokyo is ambitious, that Tokyo wants to set the standard for 21st century finance.

Mr. Saito: I think that the foreign advisors are much more optimistic than the old Japanese. I think we have got three or four minutes left. I am sorry, but Mr. Makino, can I have your comments? And if possible, Mr. Yamamoto as well.

Mr. Makino: Thank you very much. My name is Makino from the General Insurance Association of Japan. Non-life insurance, general insurance is not such a big player in Japanese markets, so I was surprised I was invited here.

This industry is facing an issue right now, which I would like to introduce to you. We mainly invest in equity and government bonds, but we have now negative interest rates, and in most cases we hold equity because of the related transactions. Therefore, high-risk-high-return markets such as corporate bond market need to be more developed. We believe we have the ability to make these investments, but unless there is a market, we cannot use our capability. So I hope the investment market will be expanded and diversified. I hope we could have such a discussion. I would like to actively participate in such discussions.

Looking at the chairman's memo, review of the tax system, and review of initial practices and regulations, only these first two points use the word "review"—I felt that you were trying to stress this. For example, comments like "Never die in Japan"... things that are negative should be improved, but as the governor said, just to write a report on paper and do not put it into practice, there is no meaning in doing that and we must not do that. So in the reviews, we should think about whether it is feasible or possible for this to be implemented or not. By doing so I hope we could come up with some significant conclusions. Thank you.

Ms. Yamaoka: Well for today, thank you very much. I actually agree with what Mr. Kunibe said. And as Ms. Kawamoto said, we have repeated this discussion many times already; we keep talking but we have never come up with a conclusion. To be the financial center of Asia may be a model for Tokyo, but as Sir Roger says, there is no meaning in doing the same as New York or London; we must think of something different. Asia, so far, had high growth but low income, because there was an inflow of cash from Europe and the United States. But Asia is getting aged and having fewer children. So the question is how to make the money circulate in Asia.

Another point is diversity. There are three markets that we need. One is freedom, another I think is transparency—I think it is very good that today's meeting is transparent. Another thing is diversity: if depositors are the same then we cannot make a profit. "How can we diversify" is important. By having diversity in Asia and to earn income is extremely important. Thank you.

Mr. Saito: Mr. Taniya, maybe could we have a word from you?

Mr. Taniya: I agree with what everybody else has said. Silicon Valley I think is the most advanced in terms of FinTech, but the big difference is that with entrepreneurs in the United States, 60% of them are not born in the United States. Traditionally, I think the United States has had quite a diverse population. 60% of the people who start businesses in Silicon Valley are not born in the United States, and this is a situation that is completely different in the United States and Japan. I do not expect Japan to emulate that, but if we could come closer to that, as much as possible, then that is what I hope to see. That is one thing.

When it comes to FinTech, “Know Your Customer” (KYC) is very strict in Japan. Being able to have quick access or open an account with your cell phone... FinTech is most advanced in the United States and China, where customers can open an account with their cell phones. So I think many countries are moving in such trend. But in Japan, you have to check the address, and it takes two weeks until you are able to open an account. From a technological perspective, it takes us to overcome a lot of impediments in order to introduce something like FinTech.

Even India...big bills have been discontinued. In other words, they are moving to e-money very quickly. They have many engineers in that country. So, New York, London, Singapore, Hong Kong—it is not just these cities or countries, but countries like India are coming up with very interesting new ideas; we might see that emerge in the near future. We need to be mindful of those movements, because otherwise at the end of the day we might realize that Japan or Tokyo is very much behind.

Mr. Saito: Now, we want to have the closing remarks by the governor. I am sorry for taking so long.

Ms. Koike: Well, thank you very much for your active participation in the discussions. I heard a variety of comments from different sectors, but one thing in common is that we have repeated the same story for the last 30 years, but there is no progress.

The world is now moving dynamically. There is a comment about NATO... I am not going to explain about the military role of NATO, but I mean “No Action, Talk Only”—that is what NATO stands for. So in this conference, we must find ways that will lead to action.

Tokyo Metropolitan Government is planning, to make international schools, to make it possible to bring nannies to Tokyo, to support people getting maids, and to have English-speaking people who can provide treatment in English at the St. Luke hospital. We are trying to implement these measures by utilizing the special economic zone system.

Next year, green bonds will be issued by Tokyo Metropolitan Government. We are trying to do so and already as a trial, environmental support bonds for 10 billion yen were issued, which were sold out on the

day of issuance. Together with this meeting, we also have a meeting of the practitioners to talk about issues in practice. We have participants from the FSA for that meeting, so the central government and other relevant organizations can have discussions together. So we have two meetings in parallel. Here we will discuss what should be the vision for Tokyo; and also there is another set of meetings for the practitioners. So these two in parallel... instead of no action, we have to take action. I intend to take action.

So thank you very much for participating in spite of your busy schedules. Also, thank you for participation. Jesper, where are you? In Los Angeles or San Francisco or wherever? (Sunny California)

Thank you very much, Mr. Taniya. We may have to add other issues such as green bonds and making requests to the Tokyo Stock Exchange, where Mr. Saito was working with his leadership of enhancing partnerships with other stock exchange markets.

There are what we can work on as the Tokyo Metropolitan Government and what we can do with the Government of Japan, in both short-term and mid- to long-term. I hope we can have an answer from this Advisory Panel which we can put into action. Thank you very much.

Mr. Saito: Thank you for your very active participation. We could not conclude in 45 minutes; I am sorry for my chairmanship. We would like to conclude the meeting for today. Are there any housekeeping announcements?

Mr. Matsushita: Announcement from the Secretariat: we would like to ask you to check the minutes afterward. We are also thinking of individual interviews; I would like to ask for your kind cooperation. The next advisory panel schedule will be informed to you later on. Thank you all very much for your participation today. Thank you.

Unidentified speaker: Thank you.

Unidentified speaker: Thank you.

