INTERNATIONAL BANKERS ASSOCIATION OF JAPAN

Global Financial City Tokyo
Priorities and Recommendations

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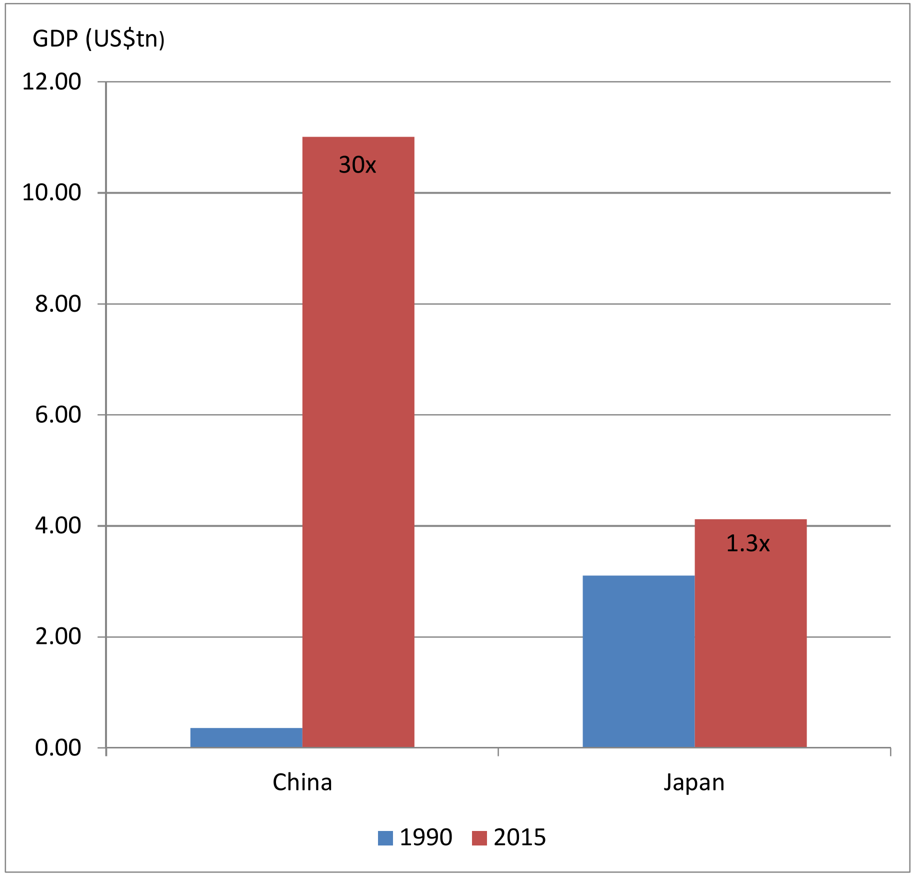
The Key Elements of a Sustainable Financial Center

Tokyo is an important global financial city, but can do much better

Stronger macro growth through structural reform + significant micro infrastructure changes = strengthening Tokyo as a financial center, contributing to meaningful improvement in Japan's overall growth

- As Japan demonstrated in the 1980's, and Hong Kong over the past 15 years, rapid GDP growth creates the conditions for a thriving financial center, even if the micro framework is not ideal
- Slow growth + an inadequate micro infrastructure led to Tokyo's relative decline as a financial center during the 1990's and 2000's
- The ability to generate strong profits in Tokyo is what ultimately will attract new entrants and will incentivize existing firms to invest and grow



Source: The World Bank.

What Should Tokyo as a Financial Center Aim to Be?

A dynamic financial center focused on facilitating the financing and growth of Japan's diverse economy, and which supplements the "Abenomics" structural reform agenda with active use of the "*tokku*" framework

Critical Drivers

Structural Reform
Improved productivity, innovation, capital allocation and growth. Build on corporate governance and stewardship code achievements

Asset Management Focus
Demographic trends demand major asset rebalancing, achievable only with a world-class asset management ecosystem and governance

Financial Sector Infrastructure
Clearing and settlement systems and activities that expand JPY and JGB use globally and create regional hubs in Tokyo (BOJ-NET expansion, expanded JSCC clearing offerings)

Better macro performance leads naturally to a higher run-rate of capital markets activity and creation of critical mass for Tokyo as a financial center

Bigger critical mass of financial market activity creates more options and potential for growth of ancillary services

Important but not First-Order Priorities

- Emphasis on replicating other financial cities with limited comparability to Tokyo
- Schools, office space, housing, nanny visas, etc
- Implementing policies based on predictions of industry structure far into the future

Tokyo as a Financial Center: Strengths & Challenges

Japan has many key strengths that can serve as the foundation for expanding Tokyo as a financial center. There are also a number of challenges that must continue to be addressed

Strengths

- Breadth and depth of capital markets
- Large, diverse universe of globally competitive corporations
- Enormous investable asset base, deployed too conservatively
- Strong rule of law; excellent financial regulator
- World-class technology and transport infrastructure
- Efficient, attractive, clean and safe public amenities and spaces
- Highly educated and motivated work-force

Challenges

- English-language utilization too low
- Onerous and uncompetitive tax system
- Overly restrictive labor regulations
- Perception of excessive rules and bureaucracy in entering and operating in the Japanese market
- Financial group "firewall" regulations
- Overly commercial-bank-centric financial industry structure
- Cultural mindset that is averse to risk taking and wealth creation

Financial Center Comparative Example

Specific Recommendations

Below are some core, achievable, and high-impact measures; they would provide a foundation on which to grow a profitable, innovative and globally leading financial center

Adoption of these recommendations would help Tokyo attract new participants and incentivize existing players to invest and grow their Tokyo operations

Recommended Measures
Å Establish a Tokyo Financial Center Promotion Office (led by a private sector CEO)
Å Revise relevant tax policy: inheritance tax and corporate tax rates; simplified administrative procedures (e.g., streamlined overseas asset reporting for non-Japanese residents)
Å Expand scope for corporate reporting and disclosure in English, the global language of commerce
Å Revise labor laws, especially to create a framework for severance that considers all stakeholders
Å NISA: Significantly increase current limits on contribution amount and tax exemptions
Å Simplify and standardize asset management reporting/documentation requirements
Å Implement a nationwide financial literacy initiative
Å Address asset management sales practices (excessive churn) and distribution-advisory conflicts that do not serve the best interests of investors

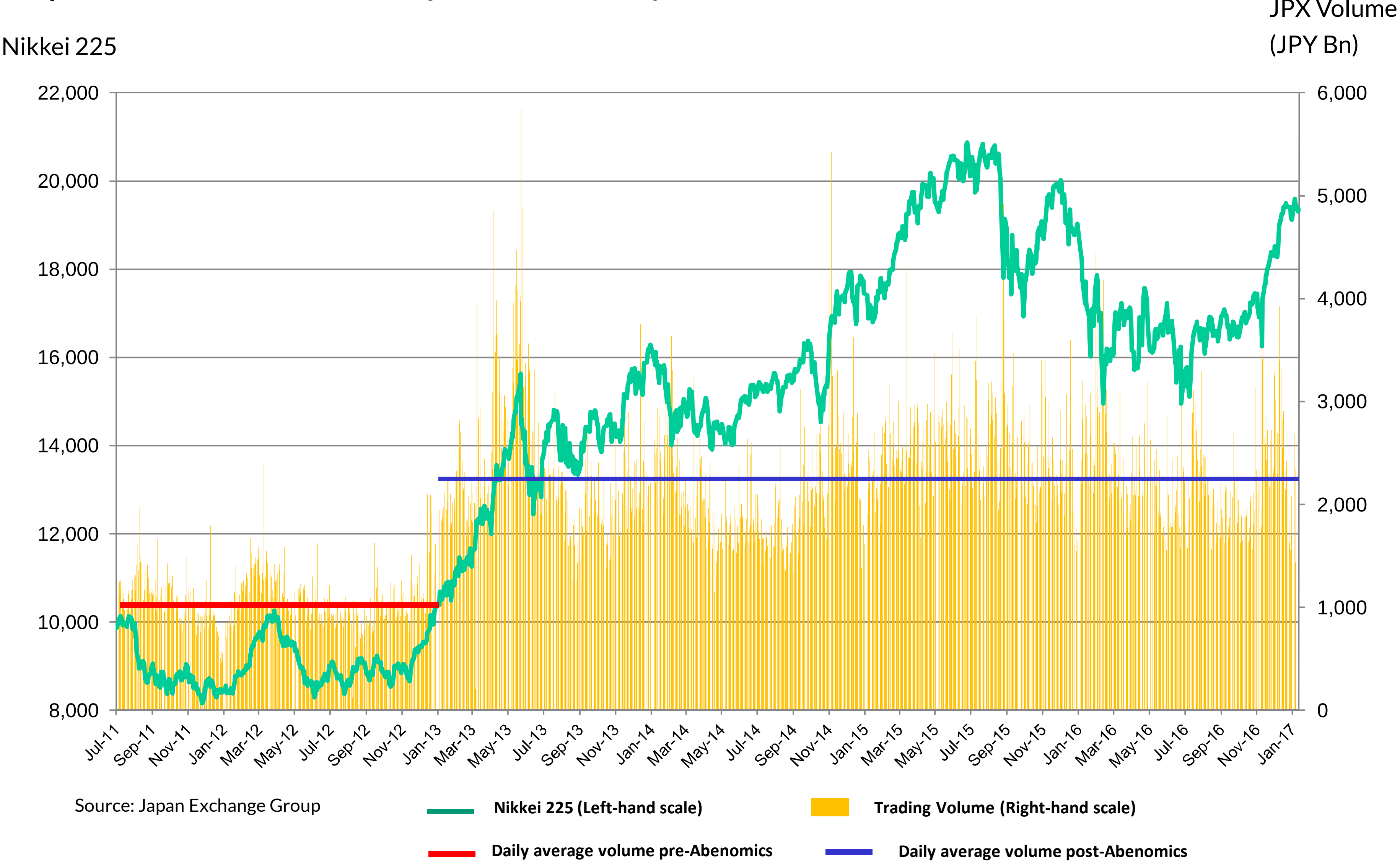
Annexes

Annex 1

Suggested KPI metrics to help measure Tokyo's progress as a financial center
Å Financial sector employment and ancillary service expansion
Å Financial industry aggregate revenue growth and relative to GDP
Å Trend in composition of household asset holdings (equities, fixed income and bank deposits)
Å Key capital markets indicators: Domestic + cross-border M&A, IPOs, stock/bond market trading volume, retail investor activity
Å Number of asset managers with Tokyo portfolio management offices
Å Tokyo's performance in the Global Financial Centres Index
Å Japan's performance in the World Bank's Business Environment Index
Å Growth of corporate bonds outstanding relative to total corporate borrowing

Annex 2

Capital Markets Activity Boosted by Abenomics



Source: Japan Exchange Group

Annex 3

Promoting Tokyo as a global financial center: IBA Japan past recommendations

Over the last ten years IBA Japan has produced several papers which included recommendations to enhance the vitalisation of the economy and specific changes to the operating environment to enhance Tokyo's standing as a financial centre. As outlined earlier:

strengthen macro growth + significant micro infrastructure changes =
strengthen Tokyo standing as a financial center & contribute to significant improvement in Japan's overall growth

Attached are the recommendations that were contained within three IBA Japan papers and a current assessment of the progress towards meeting them. The papers are:

- 2007 White Paper: Recommendations to Promote Tokyo as a Global Financial Centre
- 2010 White Paper: Recommendations for Further Financial Reforms to Promote Economic Growth
- 2013 Tokku Response: Suggested measures to revitalize Japan

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IBA Recommendations to Promote Tokyo as a Global Financial Center – 2007

Progress ◎Yes △Partial ●No

#	Progress	Recommendation
1	◎	The IBA recommends that the Government of Japan make a clear statement that the financial services sector is an important engine of economic growth, and that opening Japan's financial services industry and markets more to the world will benefit Japan.
2	△	The Government of Japan should give serious consideration to repealing Article 33 and revising the Ordinance (yet to be promulgated) under Article 44 of the FIEL. It is understandable that a transition period might be necessary, therefore we recommend that the authorities adopt the following measures in the interim: Financial conglomerates that conduct banking, securities and other financial services businesses should be permitted to appoint a country representative with management responsibility for the entire group, above the firewall, and should be permitted to share customer information for internal management control purposes. Firewalls deregulations have allowed customer information sharing and double-hatting of internal control staff (since 2009) and settlement staff (since 2014). The ban on information-sharing in the sales staff is not lifted yet.
3	△	The requirements to obtain prior written consent from a customer to share their information amongst affiliates or third parties should, in principle, be abolished or at least replaced with the disclosure requirement with customers' ability to request non-sharing of their information across the entities within the group, and should be regulated under conflict of interest and insider trading regulations. In the 2009 deregulation of the FIEA, corporate clients were subject to the opt-out system, while individuals were still in the "opt-in" system.
4	◎	Sharing of customer information for internal management control purposes should be permitted among all affiliates within a group provided their main business is the provision of financial services and the customers are provided with the group's customer information sharing policy. For internal control staff, sharing of customer information was liberalized in 2009.
5	●	The definition of "customer information", which is stipulated by a number of different laws and regulations, should be streamlined and clarified to increase transparency. Even the 2009 deregulation did not provide a clean-cut definition of "customer information".
6	△	Regarding conflicts of interest, considering the wide diversity of cases, clear guidelines to address conflict of interest cases should be made to clarify standards. In 2009, the FSA's Supervisory Guidelines instructed FIBOs set out typical cases of conflicts of interest.
7	△	The government authorities and the exchanges should: (1) ensure to ease the so-called "J-SOX" requirements as applied to foreign firms which have already filed equivalent reports in other major markets so that any additional burden for them to meet the requirement shall be in fact minimized; and (2) reduce annual listing costs sharply in order to encourage more listings by foreign firms by, for example, relaxing the review process for acceptance of documents using International Financial Reporting Standards (IFRS).
8	△	The authorities in Japan should make a special effort to attract listings from Asian companies through special government incentives and better marketing. Consideration could be given to establishing a sub-exchange under the TSE for growth-oriented Asian companies, especially focused on

#	Progress	Recommendation
		attracting professional investors capable of taking risks associated with investment in such companies. Tokyo AIM was launched for this purpose in 2009 but was merged with the TSE in 2012.
9	△	Japan's exchanges should seek to alleviate uncertainties felt by market participants by maintaining well-developed contingency plans to effectively manage crises (both software and hardware-related issues). These plans should include the strengthening of trading systems' resiliency, sound BCP measures, and solid emergency plans in the event of a halt to trading. Halfway through; It is an evolving process with moving targets, especially given the experiences from March 2011 earthquake.
10	△	The authorities and exchanges should give serious consideration to creating a much smaller number of large yet competitive and robust exchanges. Many regional exchanges were abolished (Kyoto, Kobe, Niigata, and Hiroshima.)
11	△	Exchanges should permit the listing of a wider variety of financial products that offer investors diversified investment opportunities.
12	●	The Government of Japan should address regulations to facilitate a single entity to conduct the various activities essential to its business. Statutory restrictions on stock loan activities by investment advisors should be liberalized. Stock lending onshore should be encouraged by investors who want incremental yield from mid- to long-term holdings. Licenses needed for hedge fund businesses, including management and advice, should be unified.
13	△	The tax regime should be revised to make it clear that hedge fund managers' activities, within certain guidelines, do not cause the funds they manage to become subject to tax in Japan. Specifically, hedge fund managers should be permitted a broader range of discretionary activity in Japan without the risk of the managed funds being deemed to have a permanent establishment. In the taxation amendment in 2008, exemptions from the definition of PE were made available for investment advisors for hedge funds. Related to that, the National Tax Agency (NTA) clarified that the "colocation servers" used by overseas hedge funds are not considered as PE at the Tokyo stock exchange (in 2010) and at other exchanges in Japan as well (in 2011). (ii) In addition, recent legislation looks to partnership holdings as a whole, rather than the holdings of individual partners, for purposes of determining whether such partnerships exceed large-scale thresholds which trigger taxation of gains.
14	●	The laws that aggregate partnership holdings for purposes of determining taxability should be reconsidered.
15	△	Laws in Japan applicable to investment companies should be revised to minimize registration and reporting requirements for hedge funds, coordinating with similar regimes in other jurisdictions. Carve-outs for alternative investment vehicles with limited numbers of investors should be considered.
16	△	The Government of Japan should introduce various tax measures to give individuals greater encouragement to plan their own investments and to invest their savings in the markets. Such measures should include tax-deferred schemes, attractive capital gains regimes to encourage investments, and a permanent reduction of tax on dividends. NISA was introduced in 2014.
17	△	The Government of Japan should (1) accelerate negotiations to revise and "modernize" tax treaties; (2) expand the number of countries with which it has tax treaties; (3) eliminate the need for pre-approval of withholding tax reductions under treaties; and (4) streamline withholding tax reporting obligations. Since 2007, tax treaties have been revised country by country (Australia, France, Switzerland, HK, Germany, US, NX, Sweden, UK , Belgium, etc.).

#	Progress	Recommendation
		Since 1999, stepwise exemption has been made available for withholding tax on coupons paid to foreign investors; for book-entry JGBs (2003), municipal bonds (2008), corporate bonds (2010), etc. but had to be rolled over. In 2013, this regime (called "J-BIEM") was made permanent.
18	●	The Government of Japan should establish an open process for consulting the private sector, domestic and international, on tax policy and legislative changes, and should publish draft legislation for consultation and comment by the private sector. The Government of Japan should introduce a system of publicly issued tax rulings to promulgate reasoned and consistently applied interpretations of tax law. The process of conducting tax audits should be modernized to focus on risk reviews, rather than on detailed examinations of ledgers, in the same manner recently adopted in Australia. Finally, to increase the confidence of the business community in the integrity of the system, the law prohibiting public disclosure of confidential taxpayer information should be clearly and unambiguously enforced.
19	△	The Government of Japan should introduce measures to improve young people's practical English language skills. Since 2011, English classes are mandatory from the fifth graders (starting from 2020 for the third graders).
20	△	The Government of Japan should introduce a program similar to the UK's "financial capability" program, focusing on improving young people's basic understanding of personal financial matters.
21	△	The Government of Japan and key universities should: (1) develop more practical university programs, complemented by inviting more professors and practitioners from overseas and by encouraging business/academic cooperation and bilateral cross-flow of professional people; (2) increase the number of finance and related courses at universities and actively attract students to such courses; and (3) promote exchange programs among leading professional schools, covering professors, students and practitioners.
22	●	The Government of Japan should enter into discussions with the financial services industry to create a public-private training center for the financial sector, based on successful international models.
23	●	The Government of Japan should work with the financial industry to introduce measures which would increase the number of financial sector internships.
24	△	The Government of Japan should grant more work visas to childcare helpers and domestic workers in order to support the increased participation of women and overseas professionals in the financial industry. In 2009, the MOJ partially relaxed condition for domestic helpers. In 2016, tokku made available in Kansai and Kanagawa prefecture for corporates dispatching domestic workers.
25	●	The Government of Japan should allow employers greater flexibility in managing their workforce.
26	●	The Government of Japan should introduce the so-called "white collar exemption" to overtime work and compensation rules.
27	●	The Government of Japan should revert to the policy in place until 2006 of only taxing Japan-sourced salary income of non-Japanese residents who stay in Japan for up to five years, in order to be competitive with other financial centers in the Asian region. The regime mentioned above was supposed to be a temporary special treatment after the WW II. The MoF is anxious to shift to the globally practiced rule (i.e. 183 days per year), rather than returning to the pre-2006 regime.
28	△	The Government of Japan should introduce further measures to substantially increase the number of lawyers admitted to the Bar (in line with recommendations of the Justice System Reform Council) and to expand activities of international law firms in Japan, and introduce measures to enhance expertise of legal professionals relating to international finance such as practical courses at law schools. In addition, the Government of Japan should work with the relevant authorities to increase the supply of internationally-qualified professional accountants.

#	Progr ess	Recommendation
		The MOJ had intended to increase the number of lawyers and introduced a new style of bar exam from 2006, with a target of 3,000 passees per year. But the actual passes are down to approx. 1,500 this year.
29	△	The Government of Japan should: (1) introduce open and effective consultation with the private sector and interested parties; (2) publish laws and regulations (including drafts) at an early stage to allow greater preparation before they come into effect; and (3) include reasonable transition periods (particularly for tax legislation).
30	◎	The Government of Japan should strongly encourage Haneda Airport to significantly increase the airport's capacity for international flights. In addition, the Government of Japan should encourage cost-effective ways of reducing the traveling time to Narita airport.

Source: IBA position paper, "Recommendations to Promote Tokyo as a Global Financial Center", March 16, 2007

IBA Recommendations for Further Economic Reforms to Promote Economic Growth – 2010

Progress ◎Yes △Partial ●No

#	Progress	Recommendation 提言
1	●	The Government of Japan should move quickly to assess how the focus of the pension system can be shifted to individuals
2	◎	The Government of Japan should introduce various tax measures to give individuals greater encouragement to plan their own investments and to invest their savings in the markets. Such measures should include tax-deferred schemes, attractive capital gains regimes to encourage investments, the elimination of the tax on dividends, and the netting of profit and loss on financial products for individuals (‘*kinju ittai kazei*’). *Introduction of NISAs*
3	◎△	Some of the capital of the GPIF and other similar funds should be diverted to more productive uses for strategic sectors and growth initiatives, with clear performance criteria to determine the allocation of future fund management mandates. Similarly Japan Post Bank and Japan Post Insurance should undertake more active investments across all sectors of the private credit markets to enhance returns and stimulate innovation and economic growth. *Change to GPIF mandate*
4	◎△	Institutional investors should be reminded of their fiduciary duty to the beneficiaries. They hold significant influence over companies through their voting power; they should use it and disclose how they use it. Participating actively in shareholder voting would have a positive impact on Japanese corporates’ management and could potentially lead to higher investor returns. *Introduction of Stewardship Code*
5	●	The relevant public and private sector parties should launch an initiative to jointly review and address the structural and other barriers which may be impeding the development of the corporate bond market.
6	◎	The Government of Japan should identify financial services as a strategic industry for future growth and, working with the private sector, develop policies and programs to realise this potential. *Japan Revitalization Strategy mentioned Tokyo financial center initiative (in 2015, 2016)*
7	●	The Government of Japan should establish a public-private ‘Financial Sector Promotion Organisation’ (FSPO) directly under the Cabinet Office with full participation from domestic and international financial institutions, experts and other stakeholders and with private sector representative as the CEO. The purpose of the FSPO would be to promote the development of Tokyo as a major financial centre by, for example: • leading Japan’s efforts to bring about a more dynamic financial services labour market • acting as the voice within Japan advocating for measures to strengthen the financial services industry
8	△	The Government of Japan should introduce a programme similar to the UK’s ‘financial capability’ programme, focusing on improving young people’s basic understanding of personal financial matters. Adults should also be the target of such programmes. *FSA have carried out some discussions on this topic*
9	△	The private and public sectors and the education sector should collaborate to introduce long-term measures to develop the professions which support the financial services industry, through measures such as more specialised higher education and training and internships. *Some expansion of courses (e.g. at the Tokyo Metropolitan University) but not significant*

Source: IBA position paper, “Recommendations for Further Economic Reforms to Promote Economic Growth”, March 25, 2010

Response to 2013 Cabinet Office Tokku: suggested changes that might help revitalize Japan

Progress ◎Yes △Partial ŏNo

Issue	Explanation	Progress
1. Structural reforms		
a. Labour market reforms	***Flexibility in the labour market*** • The ability to scale up and scale down operations, and the costs associated with redeploying workers/redundancies is difficult in Japan compared to many neighbouring and competing countries. This can be an impediment to new investment and expansion. A number of IBA Japan members have indicated this is a 'drag' on their expansion. Greater flexibility in employment practices would be a major benefit. ***Labour market supply*** • Boosting the participation of women in the workforce. • Improve the hiring environment for older workers ***Labour changes to boost domestic consumption*** • Providing more employment protection to non-regular workers.	● △ ●
b. Tax reform	• Too many companies in Japan do not pay tax. They are almost incentivised not to make money which acts as a break on entrepreneurialism. An overhaul of the tax system is required.	●
c. Corporation tax reduction	• Corporation tax is high by comparison to other OECD countries and competing countries in the region. This does not incentivise firms to move to Japan. • Japan needs appropriate tax receipts to maintain its developed infrastructure/environment and also to offset the debt burden. But it also needs the right incentives to encourage more investment. • Possible proposals could include cutting tax rates in special economic zones to attract foreign companies. And these tax cuts would need to be measured alongside the rates in competing countries.	△ Limited change △ ●
d. Energy strategy and sector reform	• Deregulation in the power sector and encouraging R&D in the renewable energy sector would help ensure a more sustainable stable power supply. • The costs of imported energy are considerable and have a major impact on the costs of production. Different energy mixes need to be considered and promoted (e.g. renewables, controlled nuclear etc)	△ △
2. Environmental conditions		
a. English	• Improvements in how English is taught in schools would help produce a bigger work force pool for foreign (and domestic) firms.	△ Level-up started from grade school
b. Child care	• Women are an important source of labour and are well represented in foreign firms. There is a pool of well qualified and English speaking women but often the child care arrangements (e.g. nursery services, opening hours etc) do not allow them to take up/retain roles. Improvements in childcare services would allow these women stay in the labour market.	△ **Not extensive**
c. Medical/nursing care	• With an aging population there needs to be a greater supply of domestic or foreign workers to cope with this trend.	△

Issue	Explanation	Progress
	Some regulatory reform may be necessary.	Incremental only
d. Gift tax reform	• Reforming gift tax regulations would allow for greater inter-generational movement of funds: it would be likely to encourage domestic demand which would act as a stimulant to the market.	△
3. Regulatory reforms		
a. **Trade agreements**	• The framework of trade agreements (e.g. the TPP and EU/Japan FTA) is likely to provide an important opportunity to introduce regulatory reforms to the Japanese market which could galvanise much greater (both foreign and domestic) investment into the economy.	△ Limited by other parties
b. Sector reforms	A number of sectors could benefit from reforms including the agricultural and pharmaceutical sectors. • Japan has attractive products and could expand its exports abroad. But changes to the agri-business will be important (e.g. expanding size of land holdings etc) to encourage this. It will be also a key area of reform as part of trade negotiations. • Faster approval of new developments in the pharmaceutical and medical devices markets would help the expansion of this market and aid both Japanese and foreign companies bringing 'product to market'.	△ ◎
4. Financial regulatory reforms		
a. Japanese regulatory environment	• Changes to some firewalls regulations, rules governing bank agency business etc would help stimulate stronger cross-border business. • Provision of cross-border Business Continuity Planning (BCP) would help contribute to foreign firms' resilience in the time of a disaster in a cost effective manner. And the provision of an emergency phone service should be extended from deposit taking financial institutions to a wider range of financial companies.	△ ●
5. Encouraging entrepreneurialism		
a. Tax incentivisation	• Japan produces many patents and is one of the foremost global investors in R&D but arguably more could be made of this impressive platform. • The introduction of government financial and tax incentives (e.g. seed funding promising ideas, or the delayed repayment of principal or preferential taxation of loans etc) could help commercialise some of the ideas/promote entrepreneurialism.	△
6. Financial Market reforms		
a. Exchange consolidation	• The consolidation of Tokyo and Osaka exchanges has provided positive benefits. The expansion of this consolidation (e.g. JPX and TOCOM) could help encourage further economies of scale (and regulatory consolidation) which would aid greater investment and trading.	●
b. Commodities exchange reform	• There are a number of changes to the commodities exchange which would encourage greater trading (for example treating commodities futures in a similar way to other listed derivatives including how they are regulated and the accountancy rules that apply).	△

Issue	Explanation	Progress
7. Encouraging investment		
a. NISAs – raise threshold	• The soon to be introduced NISA is attracting a lot of public interest. By, for example, doubling the cap on the amount that can be invested in this product might help to stimulate further investment in the market.	◎
b. GPIF investment strategy	• The GPIF is one of the largest pension funds in the world, but arguably the returns on investment are not as good as they could be due to a relatively conservative investment strategy. Changing the mandate (e.g. encouraging more investment in equities – both domestic and foreign) could help galvanise interest in parts of the economy and encourage further overseas investment. • Changing the mandate to allow pension funds to invest in commodities.	◎
c. Corporate governance	• The corporate governance system is different in Japan to many other jurisdictions. There is an interesting debate about the merits of the different systems but for many foreign investors the lack of a strong number of independent (non-executive) directors undermines their confidence in investing. (The recent regulatory changes which introduced the possibility of one independent director on a board can also be easily circumvented. Some foreign investors see this as an example of Japan not being serious about reform).	◎ △ **Implementation limitations**
d. Special economic zones	• The creation of special economic zones that are attractive and meet the needs of foreign companies could help stimulate inward investment. (Incentives might include a reduction in corporate tax, favourable flexible labour market conditions etc).	△ **Limited effectiveness**
e. Provision of information	• The provision of information in English (e.g. press conferences and materials of senior officials at BoJ) could help foreign investors more quickly take a view about investing in the Japanese market.	△
f. Attracting foreign professionals	• Inward investment is also likely to attract foreign professionals. An environment that meets their needs (e.g. a social security scheme that recognises some foreigners are likely to be in Japan for only a few years) and an advantageous tax system. Japan's higher income tax will be seen as a disadvantage compared to its near competing financial sector neighbours. One example could be to reverse the individual taxation policy from the current rule to the previous one (until 2006) which meant non –permanent foreign residents were favourably treated and more motivated to stay in Japan.	**△ new visa regime** • **2013 inheritance tax**