

Japan's Economic Future –A Financial Sector Perspective–

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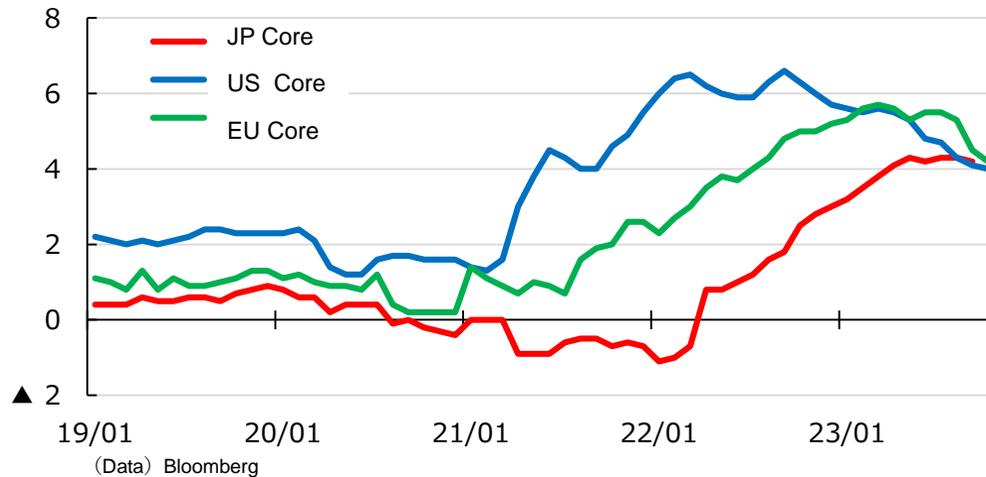
- ❑ The global economy continues to gradually recover from the COVID-19 pandemic and from Russia's invasion of Ukraine, yet the balance of risks to global risk remains on the downside.
- ❑ As a baseline scenario, global growth is projected to be 3.0% in 2023, falling from 3.5% in 2022. Economic growth of advanced economies is expected to be 1.5%, with sharp contrast to EMDEs and developing economies. Japan's growth is estimated at **2.0% in 2023** (+0.6% difference from WEO July 2023) increasing from 1.0% in 2022, supported by pent-up demand, a surge in inbound tourism and accommodative policies.



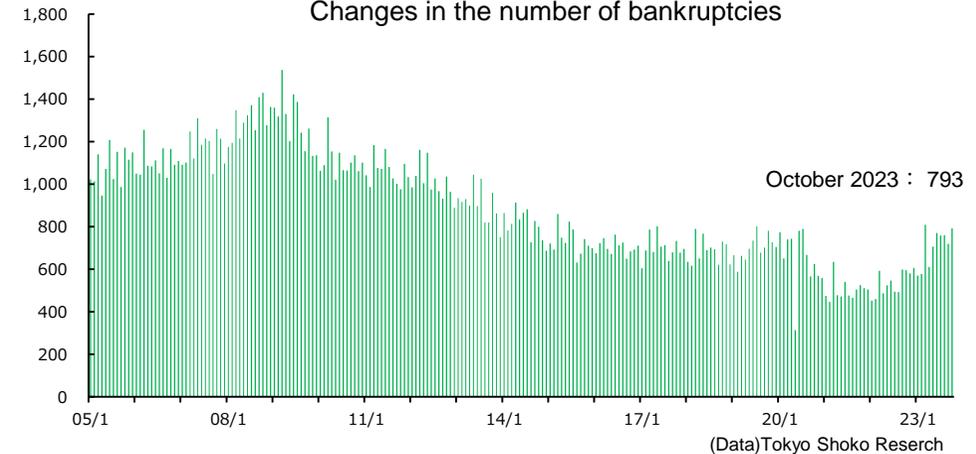
The Japanese Economy and Financial Markets

- ❑ The Japanese economy continues to recover as the normalization of economic activities from COVID-19 has progressed. Inflationary expectation has shown some upward movements through year on year, while increase of CPI is slower than a while ago. Corporate earnings remain strong and the number of bankruptcy remains low by historical standards.
- ❑ Japanese equity prices have been strong compared to other major economies, and the Nikkei has recently reached its highest level since 1990.

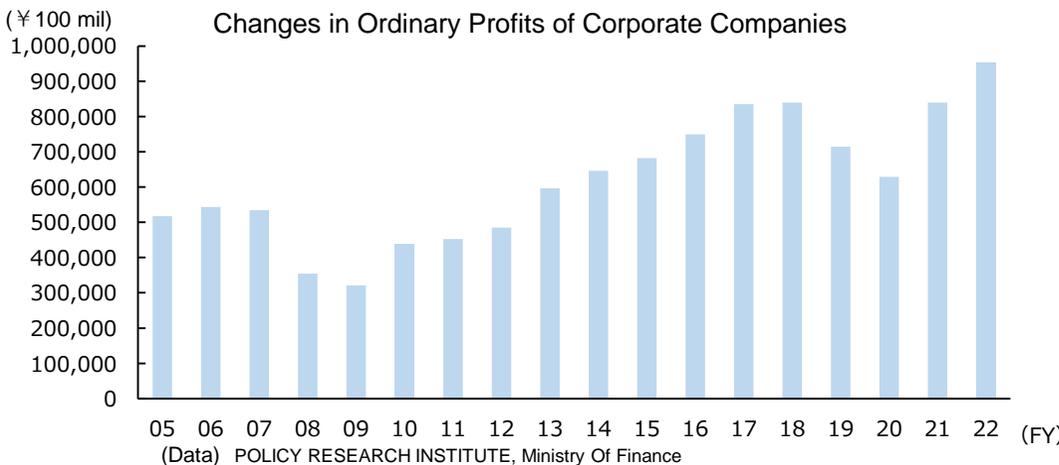
Trends in the consumer price index (core)



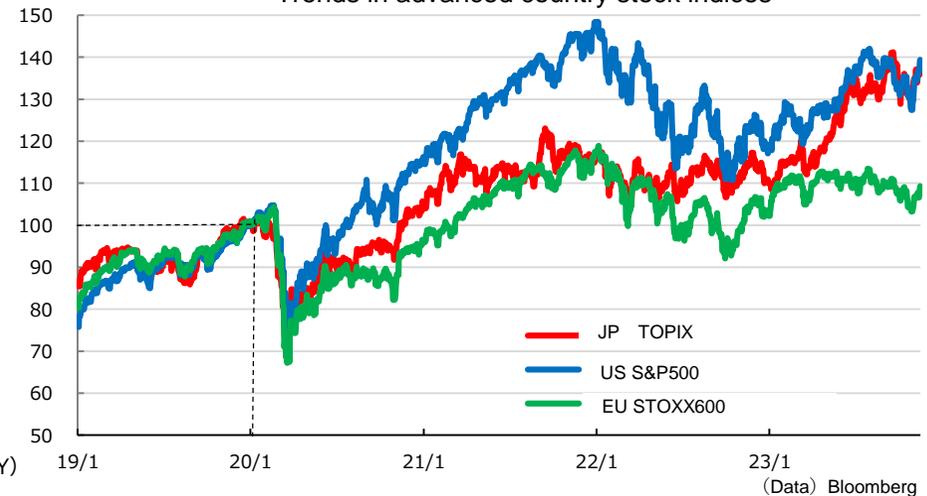
Changes in the number of bankruptcies



Changes in Ordinary Profits of Corporate Companies



Trends in advanced country stock indices

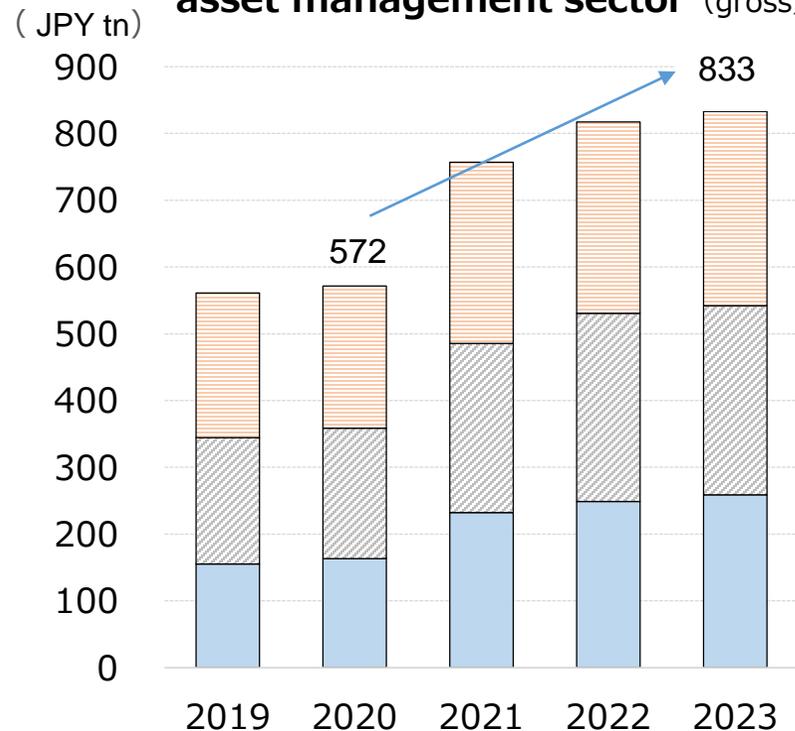


I . Reform of the asset management sector

Japan's asset management sector is expanding

- ❑ Assets under management increased by 50% in three years to JPY 800 tn (US\$ 5.5 tn)
- ❑ Large proportion of household assets in deposits, savings
- ❑ High potential for further growth through sophistication of asset management and promotion of new entrants

The funds managed in the Japanese asset management sector (gross)

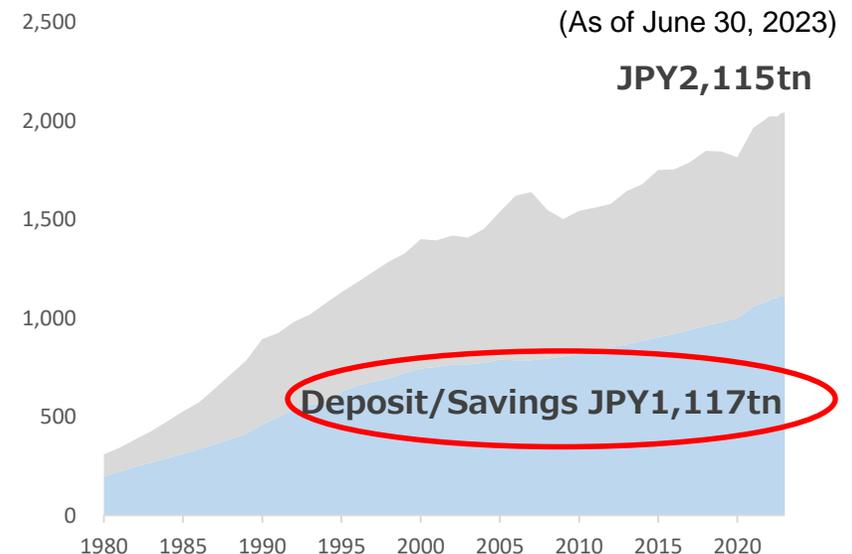


- investment trust
- ▨ Investment entrustment from other than national pension
- Investment entrustment from national pension

(source) Prepared by JFSA based on data from the Japan Investment Advisers Association and The Investment Trusts Association.

(notes) Figures are the end of March.

Household assets in Japan



(source) Prepared by the FSA from BoJ

Basic Policy on Economic and Fiscal Management Reform 2023 (Cabinet decision on June 16, 2023)

- . . . In addition, by the end of the year, the government will formulate a policy plan for fundamental reform of asset management sector, etc., that aims at improving the governance and strengthening the structure of asset management companies and asset owners, improving asset management capabilities, and fostering an environment to diversify asset management products.
- . . . the government will work to promote competition by revising Japan's unique business practices and barriers to entry and by enhancing support for new entrants.

Instruction by the PM, at the Council of New Form of Capitalism Realization (22nd, September 27, 2023)

- As for promoting Japan as leading asset management center, the Minister for Financial Services will take the lead in formulating a policy plan by the end of this year.

- We will reform the asset management sector as well as asset ownership, which will manage the expanding funds.
- The funds managed in the Japanese asset management sector have skyrocketed by 50% during the last three years, and now stand at 800 trillion yen. We will push hard to encourage sophisticated asset management and to solicit new entrants. To start with, we will rectify Japan's unique business practices and resolve barriers to entry, and will also introduce a new program to assist new entrants. We will also promote deregulation to enable asset management firms to outsource their back-office operations.
- To encourage new entry from overseas, we will establish special business zones tailored specifically for asset management business where administrative procedure can be completed solely in English. In these zones, we will take measures to improve the business and living environment tailored to needs of overseas asset managers. To ensure that our reforms reflect the needs of global investors, I will launch an asset management forum consisting of U.S. and Japan institutions as core members, including those of you participating today.
- In parallel, we will strengthen the effectiveness of corporate governance reforms. We will systematically follow up the developments to encourage management to place importance on price book-value ratio (PBR), as well as to promote formulation, disclosure, and implementation of their business reform plans.
- The development of Japan's asset management business, leveraging more than 2,000 trillion yen of personal financial assets, will help bolster the flow of investment. A win-win relationship between the U.S. and Japan, which share universal values such as the rule of law and a market economy, will be a great contribution to the global economy. The vision I spoke today will be put in concrete action as a policy package. To garner support for this vision, we will hold a "Japan Weeks" event this autumn, and invite investors around the world. I would be delighted if you would join us in this endeavor.

Promoting Japan as a Leading Asset Management Center

Government's Policy Plan to be developed by end-2023

- ❑ Building upon drastic expansion of NISA (permanent tax exemption scheme for small investments) and corporate governance reform
- ❑ Fundamental reform of asset management sector and asset ownership
- ❑ Fitting the remaining piece to lead the growth of the Japanese economy and an increase in asset income of the people.

Policy Plan for Promoting Japan as a Leading Asset Management Center

*In addition to III, which is formulated this time, I and II are included.

Customer-Oriented Business Operations

- ✓ Requiring financial firms to maximize customers' benefits
- ✓ Improving provision of information to customers

I Plan for Doubling Asset-based Income (November,2022)

- ✓ Stable household-based asset formation
- ✓ Expanded and permanent NISA
- ✓ Improved financial literacy

III Reform of Asset Management Sector and Asset Ownership

- ✓ Asset management sector reform
- ✓ Improved capabilities of asset owners

II Action Program for Accelerating Corporate Governance Reform (April,2023)

- ✓ Improved market functioning
- ✓ Sustainable growth of corporates

Major Policies unveiled by PM Kishida for Promoting Japan as a Leading Asset Management Center (1)

1. Reforming the Asset Management Sector

- | | |
|---|---|
| ① | Call for major financial groups with asset management companies to develop their plans to enhance their asset management capabilities and improve governance |
| ② | Establish principles for product governance of asset management companies |
| ③ | Rectify Japan's unique business practices and resolve barriers to entry |
| ④ | Establish special business zones |
| ⑤ | Introduce a new program to assist new entrants (Emerging Manager Program) |

2. Reforming Asset Ownership

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|---|--|
| ① | Formulate " Asset Owner Principles ," by summer 2024 |
| ② | Reform of corporate pension funds
(increase transparency of asset managers' track record for corporate pension plan participants; expand joint management options for small-scaled defined-benefit plans; and enable participants in defined-contribution plans to select appropriate products through more transparency on investment guidelines and portfolio structure) |

Major Policies unveiled by PM Kishida for Promoting Japan as a Leading Asset Management Center(2)

3. Investing in growth and diversifying investment opportunities

- | | |
|---|--|
| ① | Promote investment into start-up companies with growth potentials |
| ② | Diversify investment opportunities , including alternative investments and sustainable investments (allowing investment trusts to partially include non-listed equities, hosting dialogue to promote sustainable finance related investment products) |

4. Shifting from “form” to “substance” - Stewardship activities

- | | |
|---|--|
| ① | Work with JPX to follow up on JPX’s initiative to encourage management to place importance on price book-value ratio (PBR), as well as to promote formulation, disclosure, and implementation of their business reform plans to this end |
| ② | Promote substantive engagement, including through revision of the large shareholding report requirement to encourage dialogue between institutional investors and companies |

5. Improving Public Relations and Communications

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| ① | Launch an “ Asset Management Forum ” to promote reforms reflecting the needs of global investors. Establish a preparatory committee for the forum by the end of 2023 |
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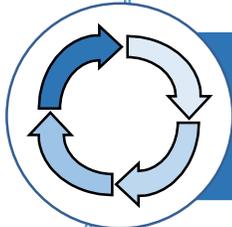
II . Corporate Governance Reform



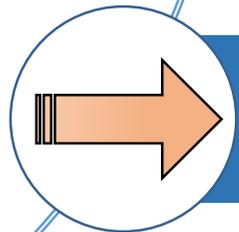
A Public-Private Initiative



Growth-Oriented Governance



Periodic Review and Follow-up



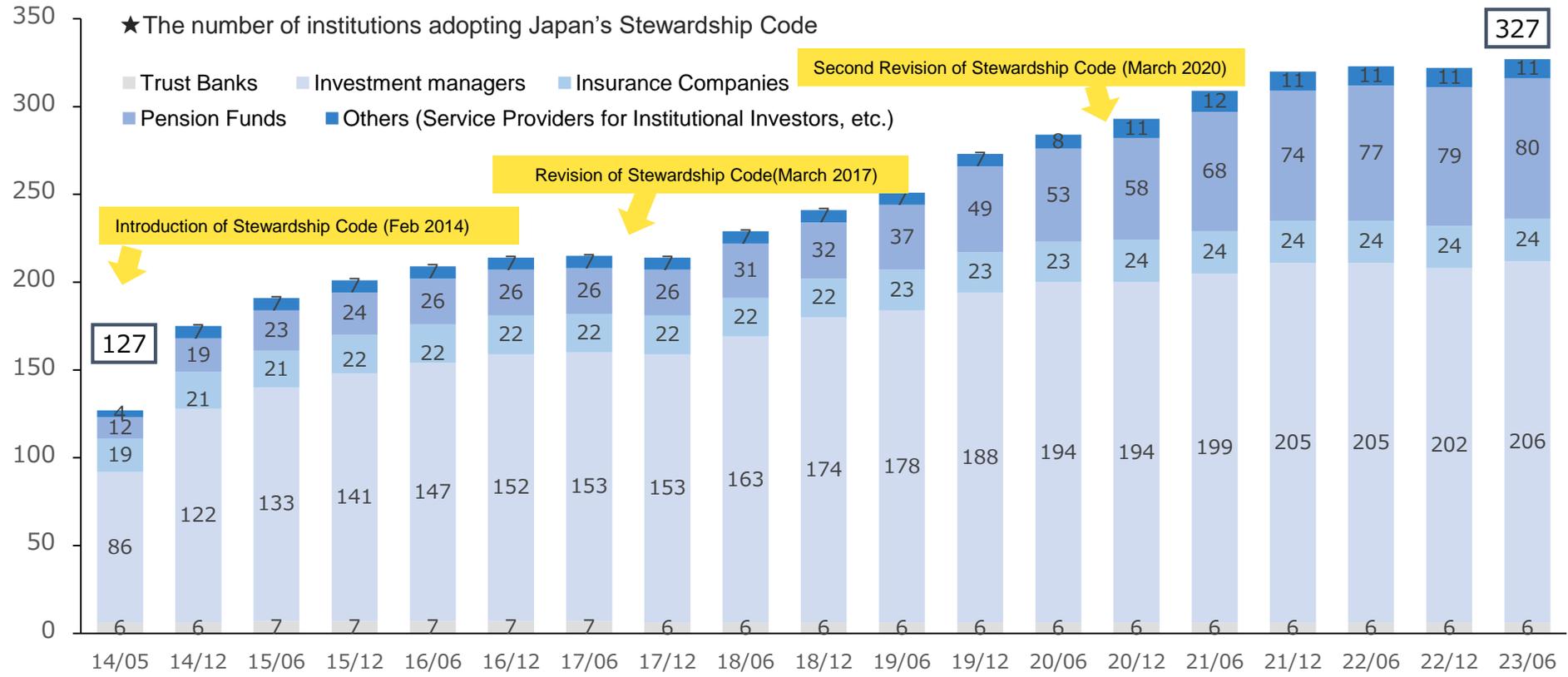
From Form to Substance

Japan's Corporate Governance Reform



Institutions Adopting Japan's Stewardship Code

- ▣ Institutions adopting Japan's Stewardship Code has continued to increase. As of end of June this year, 327 institutional investors have adopted the Code.
- ▣ Out of the 327, 302 institutional investors* have adopted the upgraded 2020 revised version of the code. (*6 trust banks, 187 investment managers, 24 insurance Companies, 75 pension funds, 10 others)

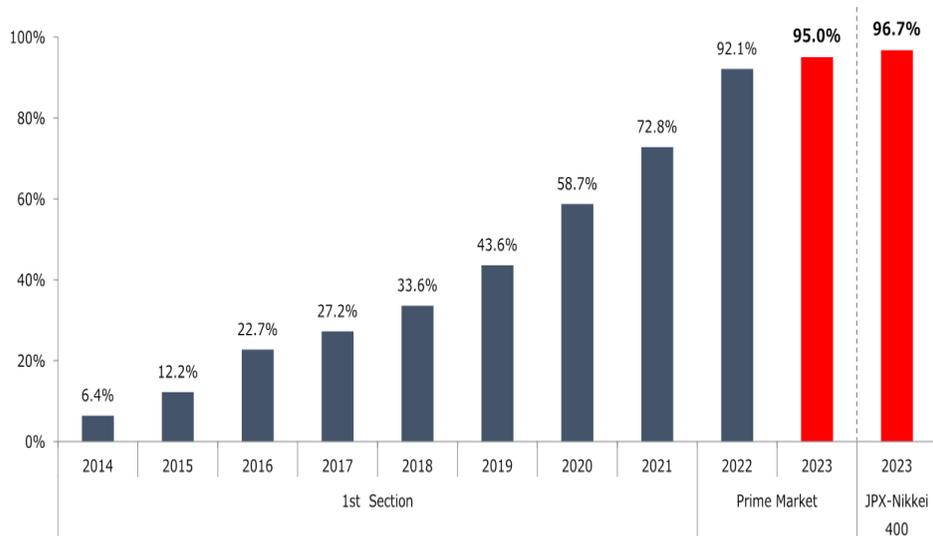


Source: Prepared by JFSA

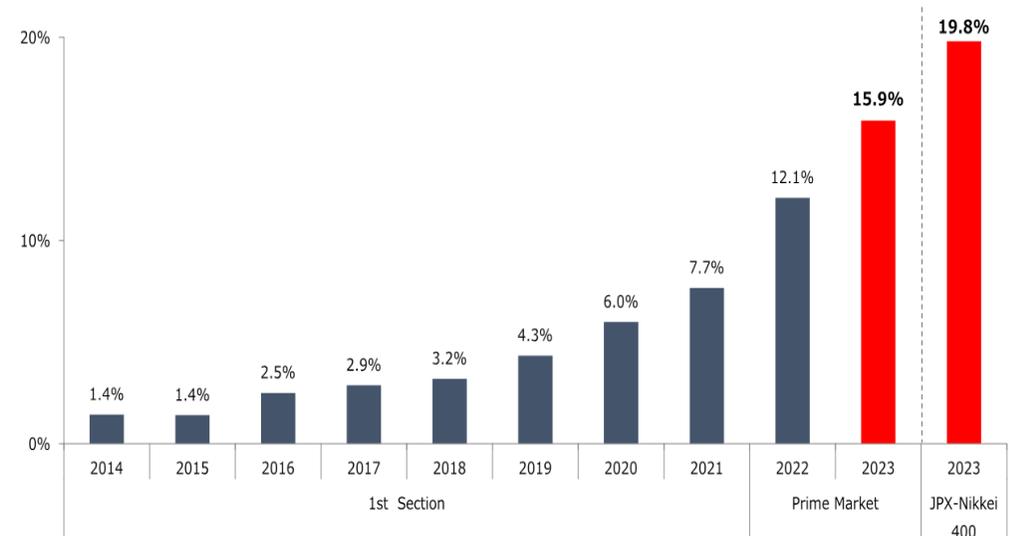
Independent Directors in JPX Listed Companies

- ❑ In 95% of Prime Market listed companies, 1/3 or more of their board members are independent directors.
- ❑ In about 20% of JPX Nikkei 400 companies, the majority of their board members are independent directors.

【Companies with independent directors making up 1/3 or more of their boards】



【Companies with independent directors making up the majority of their boards】

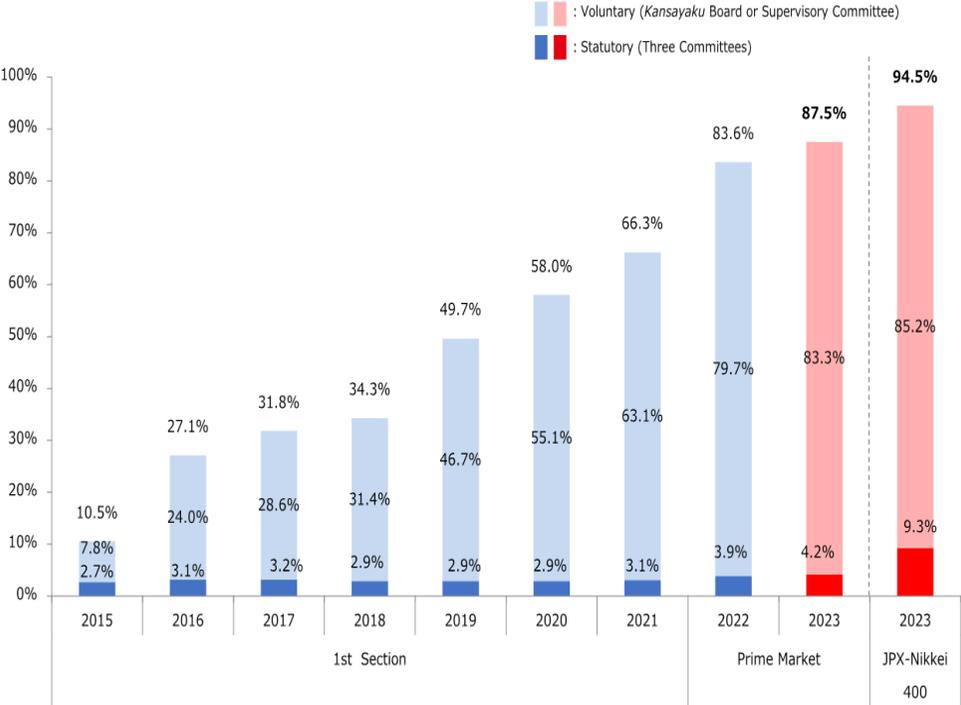


Source: Excerpts from “Appointment of Independent Directors / Establishment of Nomination and Remuneration Committees by TSE-Listed Companies, Tokyo Stock Exchange, Inc. July 31, 2023,” partially processed by FSA

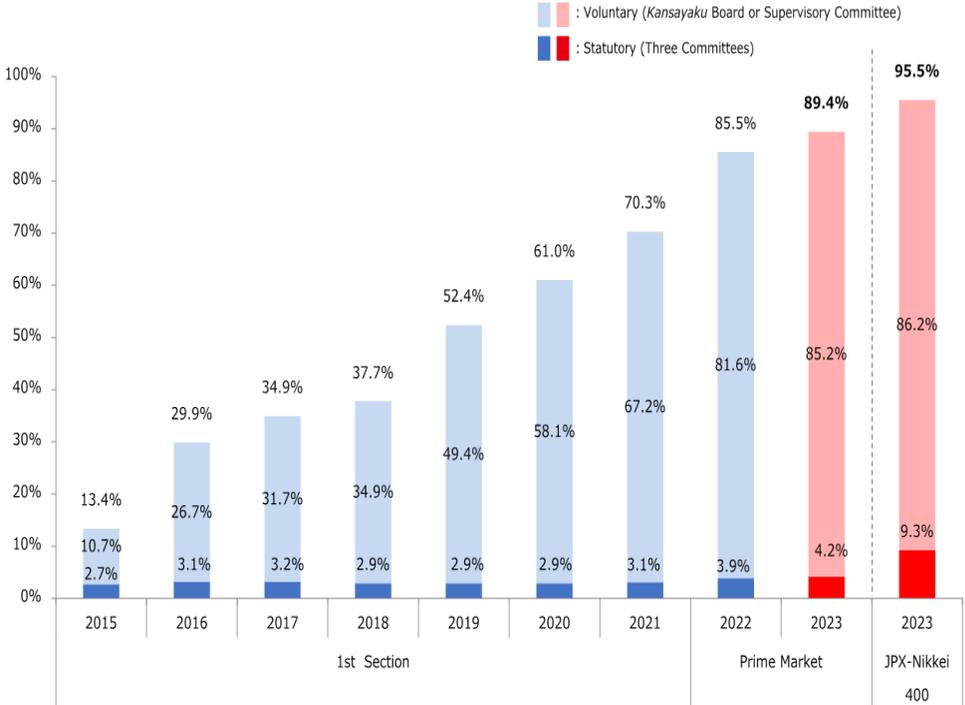
Nomination / Remuneration Committees

More than 85% of Prime Market Corporates have statutory or optional Nomination/ Remuneration Committees.

【Companies with a nomination committee】



【Companies with a remuneration committee】



Source: Excerpts from “Appointment of Independent Directors / Establishment of Nomination and Remuneration Committees by TSE-Listed Companies, Tokyo Stock Exchange, Inc. July 31, 2023,” partially processed by FSA

From Form to Substance - Corporate Governance Reform Action Program (1)

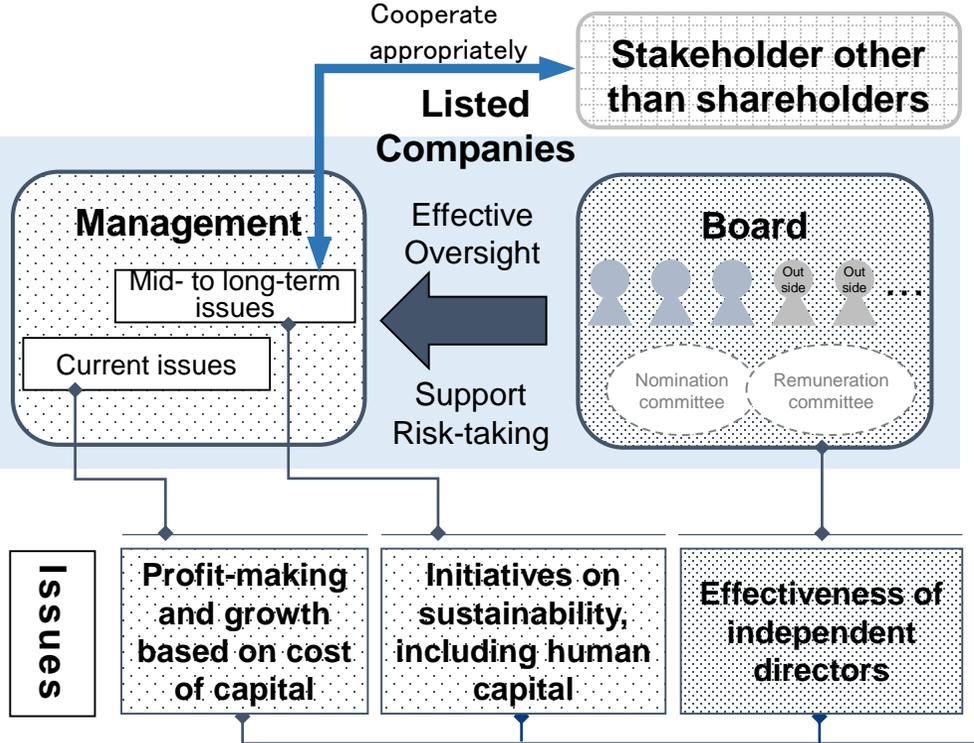
□ The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code published recommendations regarding "Action Program" as of April 26. The Council will review the implementation status from time to time and consider whether additional measures are needed.

Action Program for Accelerating Corporate Governance Reform: From Form to Substance

Approach to future initiative

- It is vital to move the focus of reform from form to substance in resolving the issues. To this end, it is necessary to create an environment that promotes self-motivated changes in the mindsets of companies and investors, as well as to make the dialogues between companies and investors more productive and more effective.
- It is appropriate to examine the timing of the revision of each Code in a timely manner based on the status of progress from the viewpoint of the effective implementation of corporate governance reform, not necessarily following the review cycle in the past years.

1. Issues for seeking sustainable corporate growth and increased corporate value over the mid- to long-term



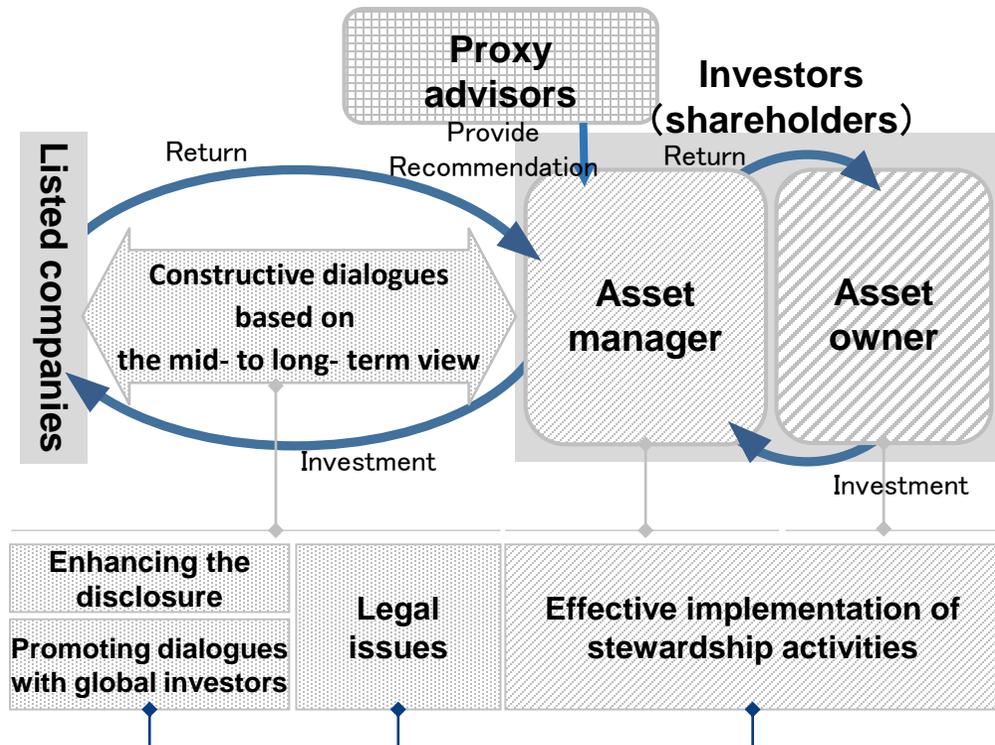
Specific measures

- A) Encouraging the management with an awareness of profit-making and growth**
Encourage the management with an awareness of profit-making and growth based on the cost of capital (such as the proper allocation of management resources toward risk-taking, including a business portfolio review and investments in human capital, intellectual properties and R&D)
- B) Encouraging the management with an awareness of sustainability issues**
Encourage companies to take actions on sustainability through publication of companies' good disclosure practices. Consider measures to improve the diversity of the board and core human resources, such as increasing the percentage of female executives (target of 30% or more by 2030).
- C) Improving the effectiveness of independent directors**
Promote further improvement of the effectiveness of independent directors through compilation and publication of the actual status and examples of a board, nomination committee and remuneration committee, and educational activities to promote understanding of the roles expected of independent directors

Corporate Governance Reform Action Program (2)

Action Program for Accelerating Corporate Governance Reform: From Form to Substance

2. Issues related to dialogue between companies and investors



Specific measures

A) Effective implementation of stewardship activities

Promote the efforts of asset managers and asset owners to deal with the issues relating to the stewardship activities (including allocating sufficient resources, providing incentives for stewardship activities, establishing governance structures of asset owners).

B) Enhancing the disclosure as a basis for dialogue

Request to disclose the status of dialogues and make clear sufficient and insufficient cases of "Explain".
Consider measures to provide investors with the information they need prior to the general shareholder meeting and to promote timely disclosure of corporate information.

C) Promoting dialogues with global investors

Promote dialogues between companies and global investors by "visualizing" companies that willingly and actively respond to the expectations of global investors and further expand the coverage of English disclosure.

D) Resolving legal issues

Consider clarification of "act of making important suggestions" and "joint holders" under the large shareholding reporting rule, transparency of beneficial shareholders, and how to protect minority shareholders in the case of a partial takeover bid.

E) Resolving market environment issues

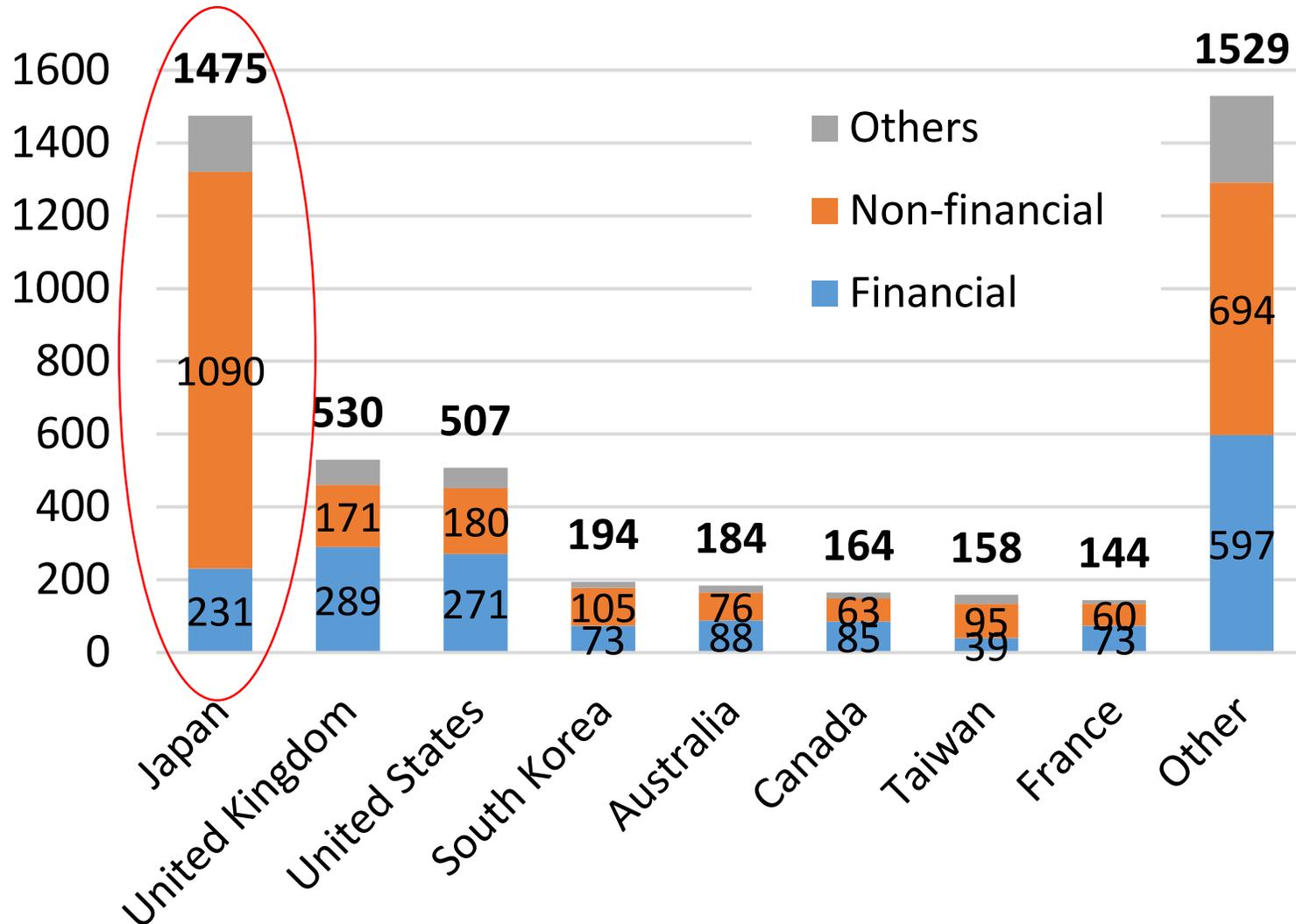
Consider the disclosure and corporate governance issues with regard to quasi-controlled listed companies, follow up on the progress of reduction of cross-shareholdings and consider whether further measures are called for.

III. Sustainable Finance

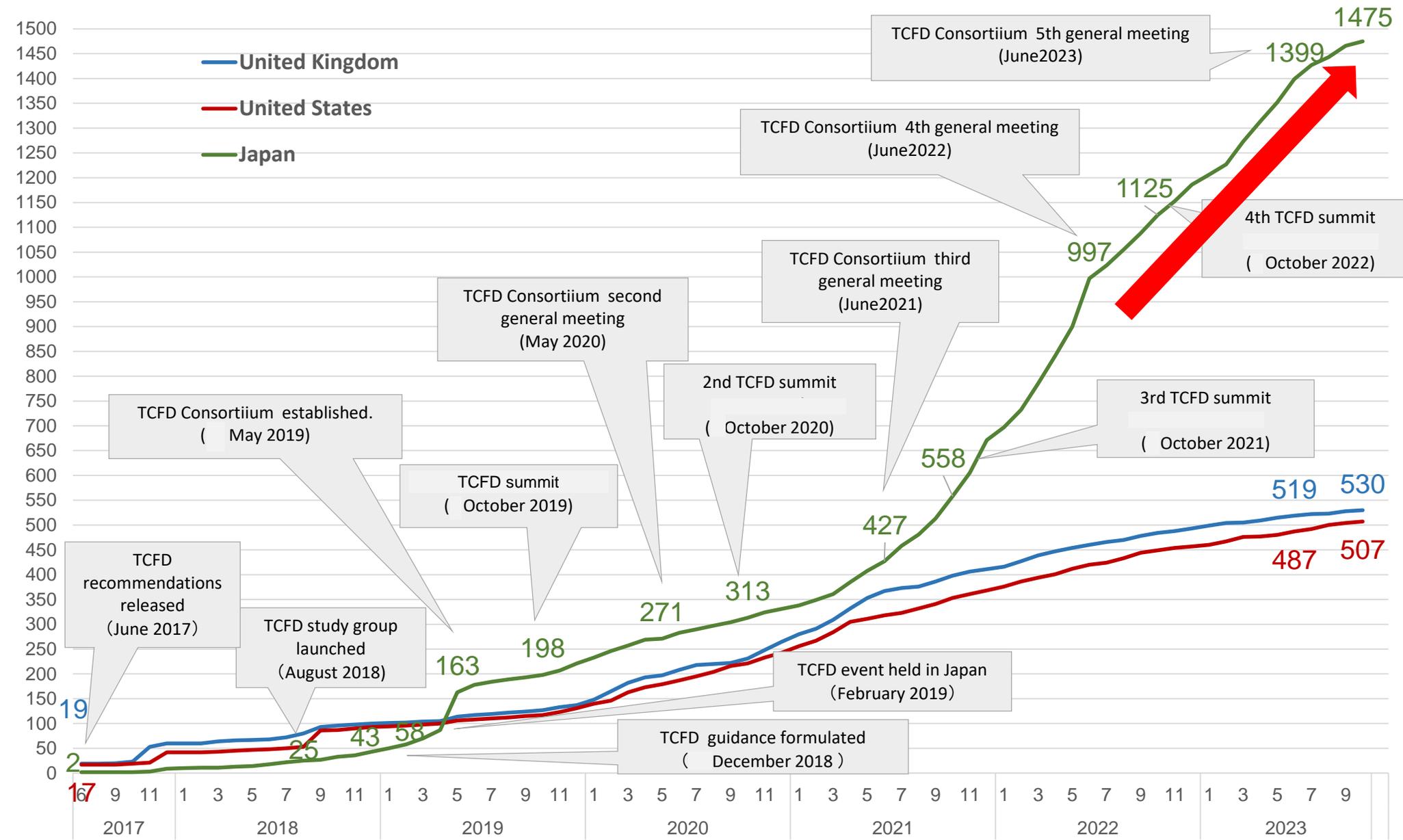
TCFD Supporters (As of 25 October 2023)

□ The **TCFD** has developed a framework to help public companies and other organizations disclose climate-related risks and opportunities.

Number of institutions supporting TCFD



TCFD supporters (As of 25 October 2023)



Sustainable Finance Initiatives (1)

to June 2023

From July 2023

Corporate Disclosure

Added a new section in Annual Securities Reports, on sustainability information such as climate change and human capital

Standards to be developed by the Sustainability Standards Board (SSBJ). Collect and publish good practices of sustainability information disclosure

Participate in international discussions on ISSB standards development including through publicly communicating Japan's views. Discuss assurance of sustainability information.

Capital market

Data

Provide ESG data including GHG emissions through JPX platforms.

Asset Owners

Identify challenges for institutional investors and assist them on improving effective engagement.

Individuals

Revised supervisory guidelines to clarify expectations for ESG funds

Improve ESG investment trusts accessibility for individual investors.

ESG evaluation

Called for adoption of the Code of Conduct by ESG evaluation providers.

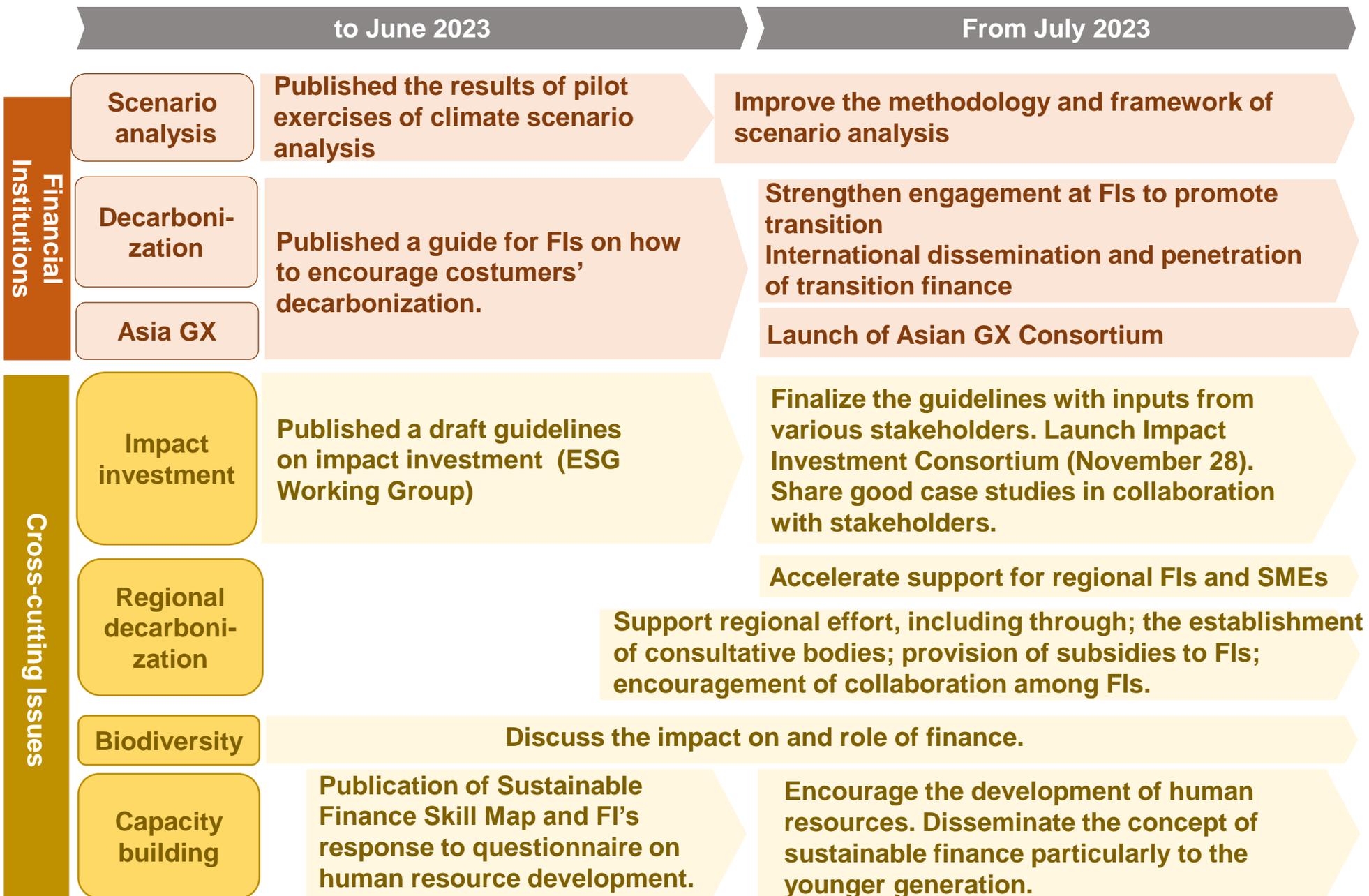
Call for adoption of Code of Conduct by ESG data providers and improve effectiveness of the Code of Conduct.

CC market

Demonstration testing of market development, etc.

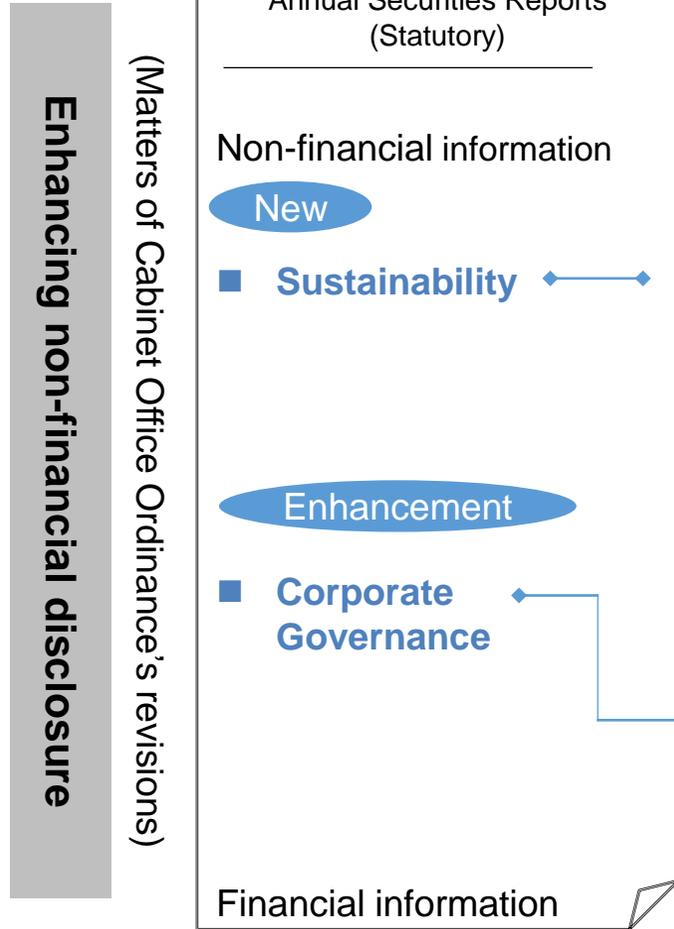
Establish Carbon credit market
Support market development and credit creation to foster transactions

Sustainable Finance Initiatives (2)



- ... increasing numbers of signatories to the PRI is highly meaningful. As a strong driver of responsible investment, the initiative enables asset managers and owners to engage in dialogues with companies and promote growth and sustainability outcomes. In Japan, although many financial institutions including GPIF have already embraced PRI, I would expect further more to come to join the movement. In order to accelerate this trend, I hereby announce that as the government we would proceed with necessary background work, and that seven representative public pension funds, worth of 90 trillion yen, or \$600 billion in AUM, will start preparations for newly becoming signatories to the Principle for Responsible Investments. Our objective is that public pension funds reinforces their work on sustainable finance and spread the movement to the whole financial market.

Addition of a New section in Annual Securities Report - Sustainability



Sustainability

General

- A new section for disclosure of sustainability information will be created
 - "Governance" and "Risk Management" will be disclosed by all issuers.
 - "Strategy" and "Metrics and Targets" will be disclosed under materiality judgement by an issuer.

Human capital

- "Human resource development policies" and "Policies on improving workplace environment" will be added to disclosure items.

Diversity

- "Gender pay gap," "Ratio of women in managerial positions," and "Ratio of male workers taking childcare leave" will be added to disclosure items.

Corporate Governance

Functioning of the Board of Directors

- A new section for disclosure of activities of the Board of Directors, Nomination Committee, and Remuneration Committee will be created.

Asian GX Hub (GX international Financial Center)

□ Support Asian transitions to Net Zero by integrating information, human resources and financial flows.

Data

Aggregate corporate data, including CO2 emissions, on the JPX ESG Bond Information Platform.

Improve access to overseas data in collaboration with Asian stock exchanges.

Human Resources

Train GX financial professionals and assist private sections' effort to set qualification for ESG-related analysts.

Open global GX and sustainable finance courses at Japanese and Asian universities.

Project Development

Establish **Asian GX Consortium** to convene public and private sector participants.

Exchange information on investment strategies on potential GX projects leveraging tools such as blended finance and public-private partnerships.

Support **creating carbon credits** to promote GX investments in Asia.

Disseminate Japan's initiative including through Japan-ASEAN Meetings.

Asian GX Consortium



Thank you for your attention.
