

Promoting Japan as a Leading Asset Management Center

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Shigeru Ariizumi

**Vice Minister for International Affairs, FSA of Japan
Chair of IAIS Executive Committee and
Vice Chair of IOSCO Board**



金融庁

Financial Services Agency, the Japanese Government

※ The content of the actual presentation may not necessarily reflect the official view of the FSA of Japan.

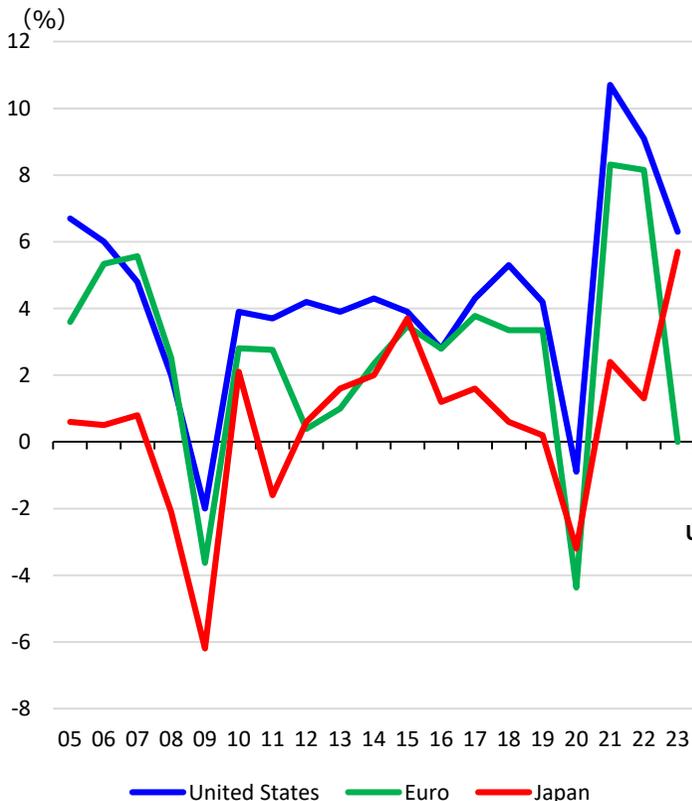
Macroeconomic Developments in Japan

Japanese Economy - Gaining Growth Momentum

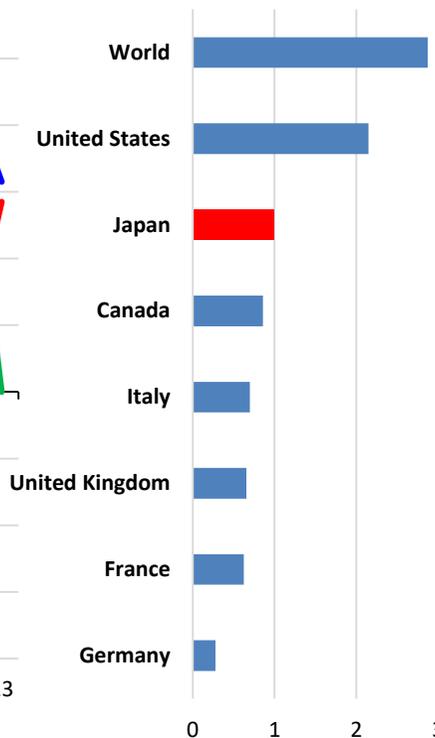
- Japan's Nominal GDP growth increased during 2022 -2023 while other major economies' growth rate declined. The forecast for 2024 is one of the highest among G7 countries.
- The potential growth rate is also on the recovery trend post COVID-19.

Economic Growth

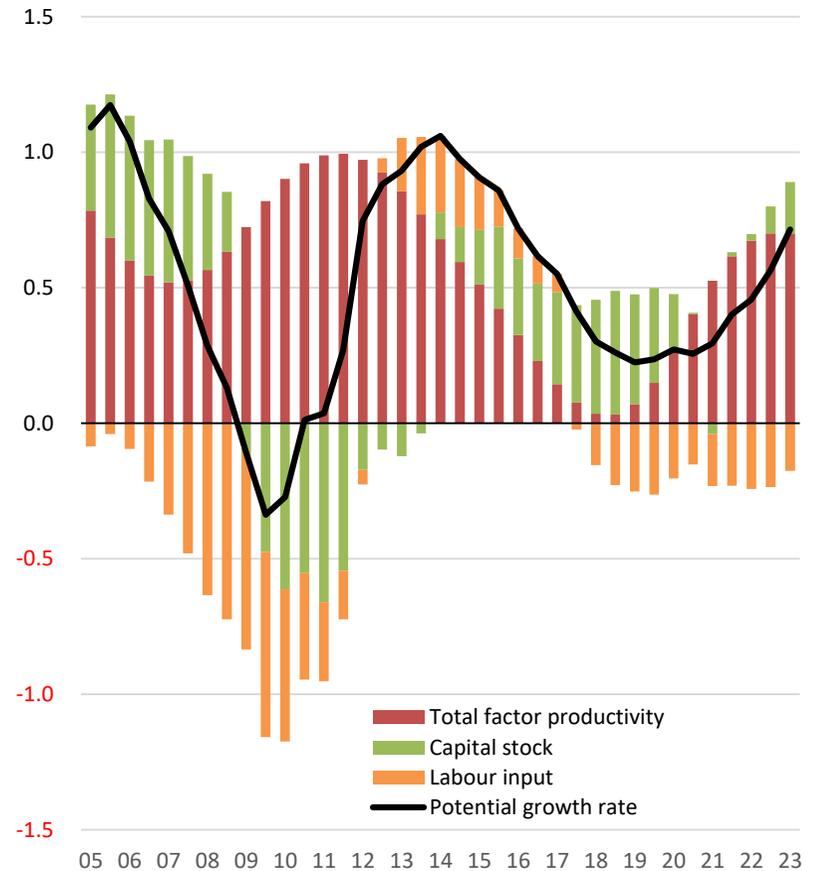
Nominal GDP Growth Rate (YOY,%)



2024 Projection (Real GDP, YOY,%)



Potential Growth Rate (YOY, %)

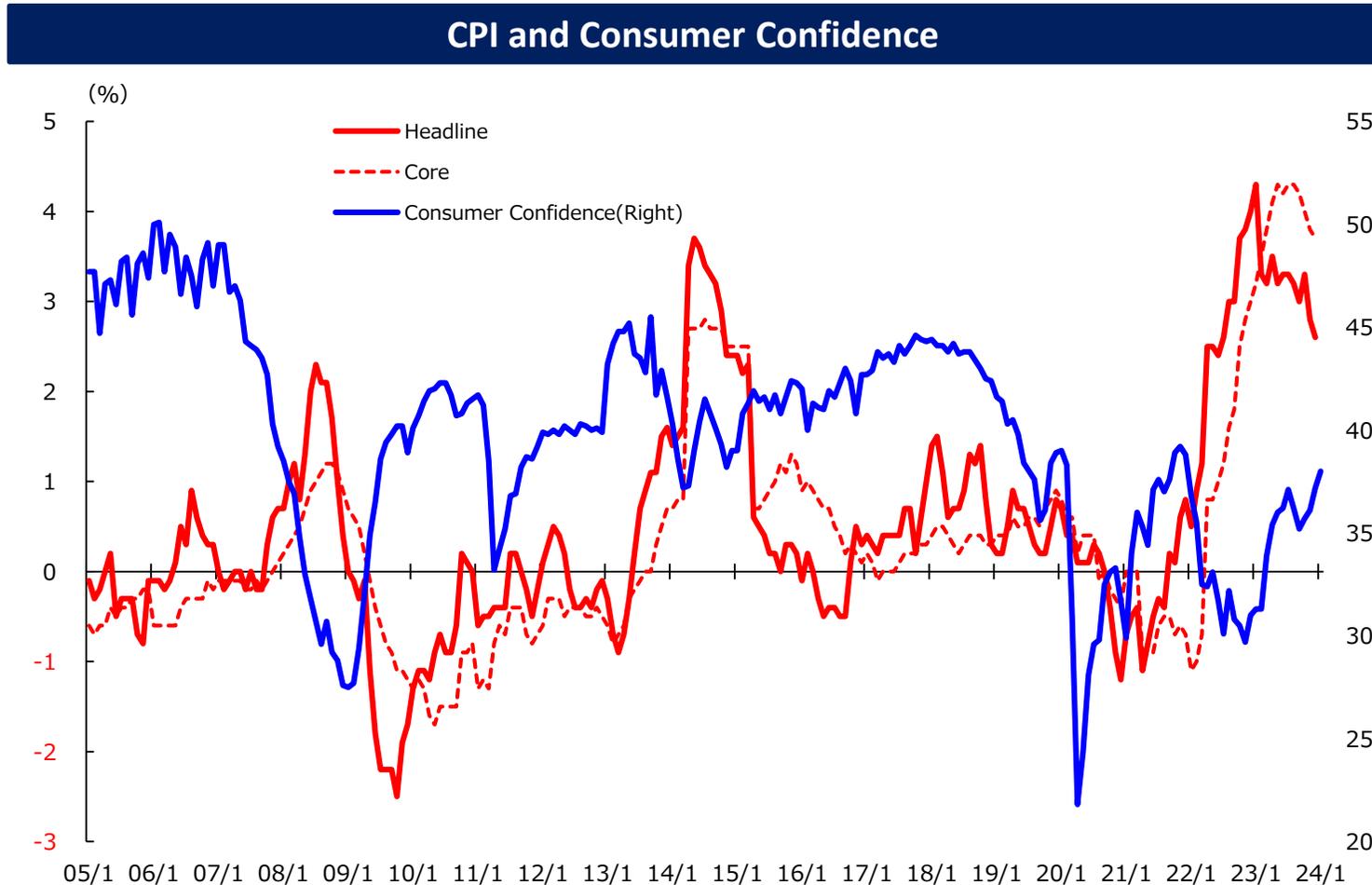


*Labour input: Hours worked + Number of employed

(source) Bank of Japan

Japanese Economy – Shifting to Stable Inflation and Consumption

- ❑ As cost-push inflation is peaking out, consumer confidence has been improving.
- ❑ Moreover, Japan is nearly overcoming deflation for the first time in decades, where the BOJ sees the likelihood of achieving the 2% inflation target is gradually rising.



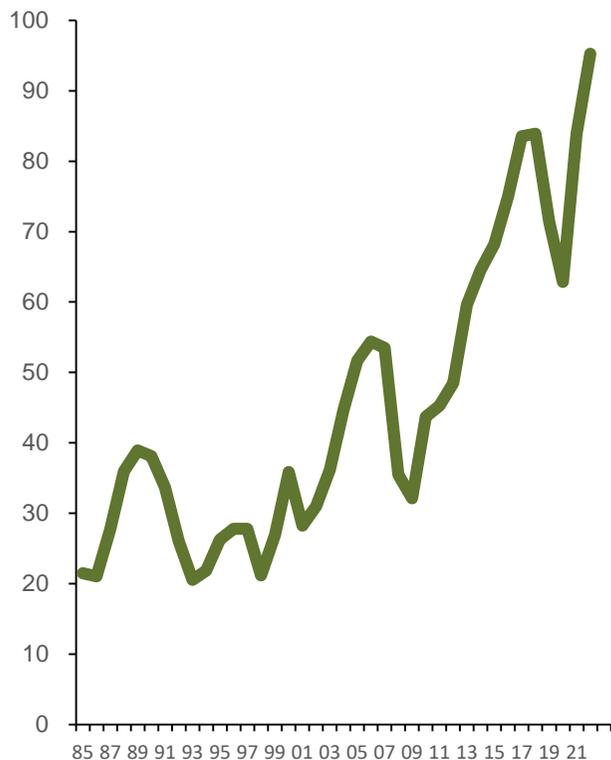
(source) Bloomberg, Cabinet Office

Japanese Economy - Corporates Achieving Record-high Profits

- Japanese corporates are performing well, achieving record-high profits in 3Q23(Sep-Dec). Annualized nominal private investment is at the highest level in 30 years.
- With this strong performance, wage growth in 2023 also hit the highest level in the past 30 years. Market analyst estimates that this trend will further continue in 2024.

Corporate Profits

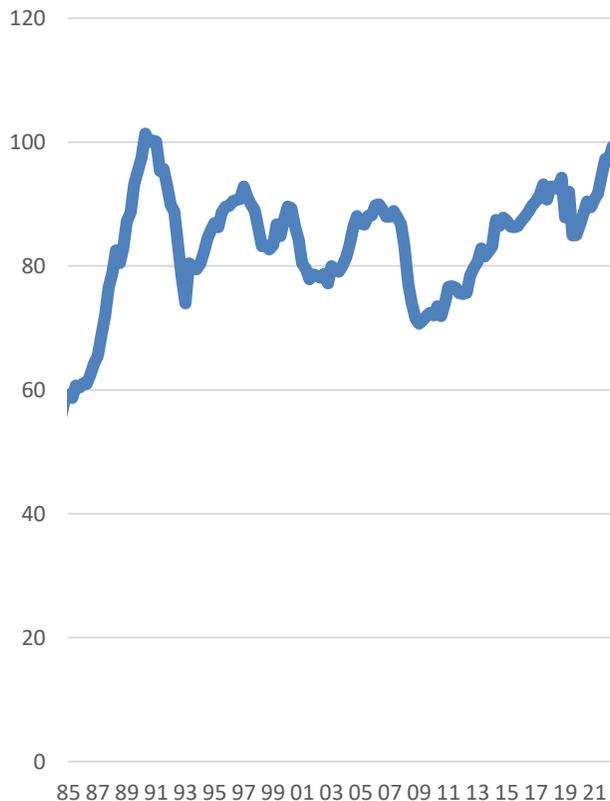
(Tn JPY)



(source) Ministry of Finance

Nominal Private Capital Investment

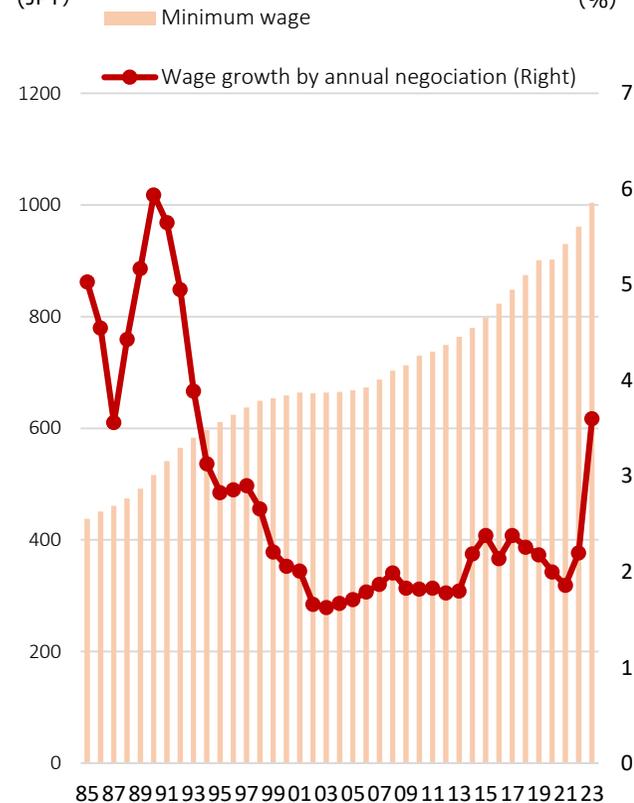
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*Annualized
(source) Cabinet Office

Wage Growth

(JPY)



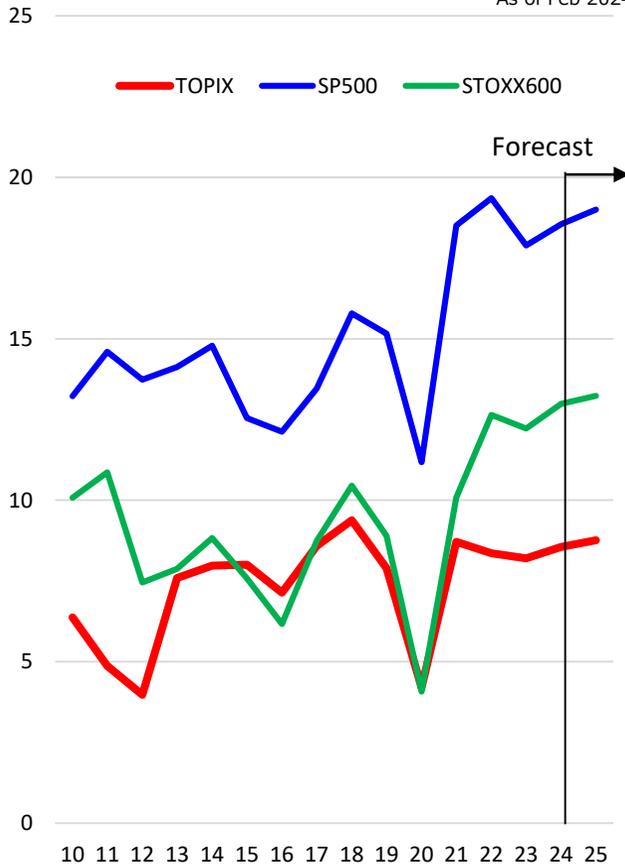
(source) Ministry of Health, Labour and Welfare

Signs of Further Improvements in Profitability and Efficiency

- While Japanese companies have steadily performed, profitability and efficiency have room to improve. The Tokyo Stock Exchange (TSE) requested listed companies to take concrete actions to strengthen their business efficiency and to disclose its progress periodically.
- So far, those who responded to TSE's request have outperformed those who have not in the equity market.

Return on Equity

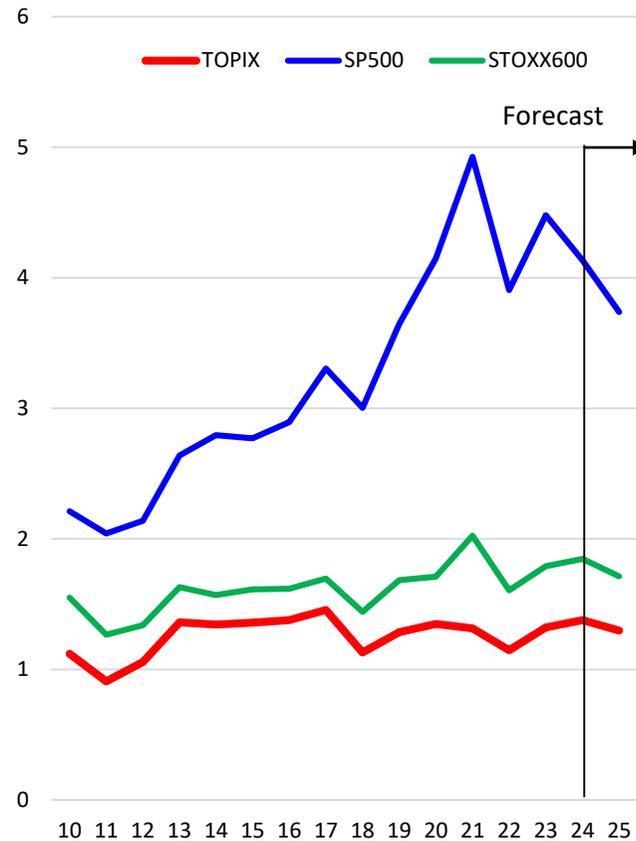
As of Feb 2024



(source) Bloomberg

Price-to-Book Ratio

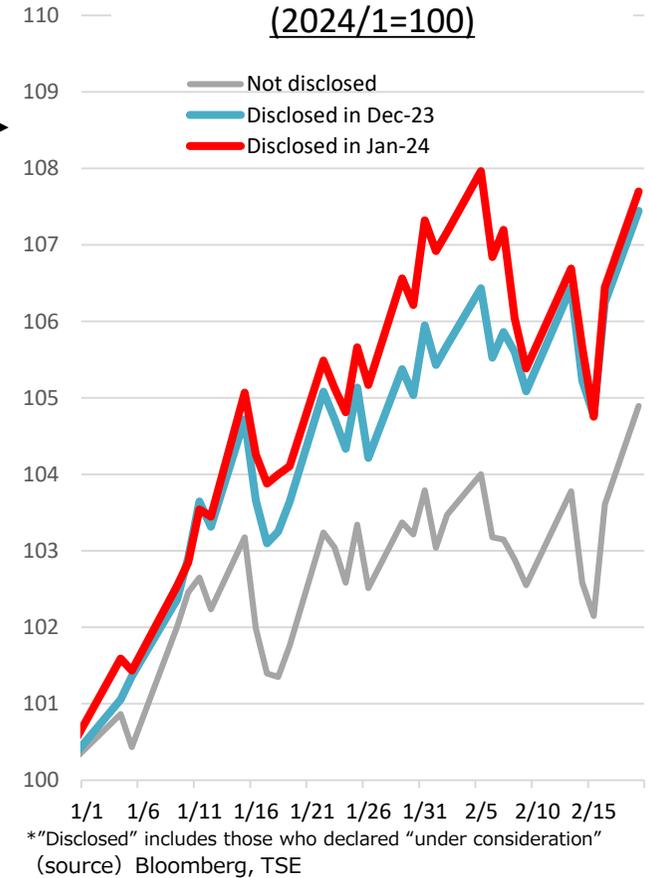
As of Feb 2024



(source) Bloomberg

Average equity prices of listed companies responded/not responded to TSE's request

(2024/1=100)



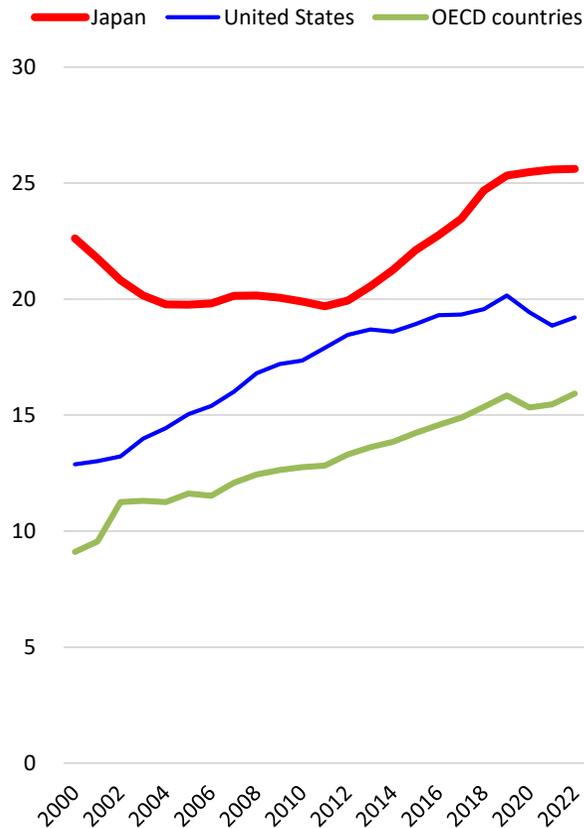
*"Disclosed" includes those who declared "under consideration"
(source) Bloomberg, TSE

Tackling Demographic Challenges

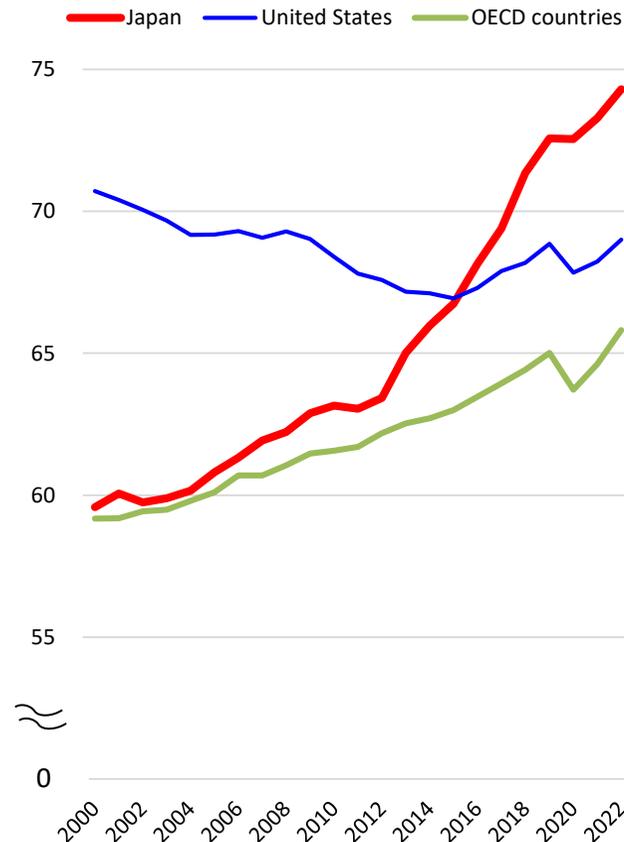
- To respond to demographic challenges, Japan has encouraged labour participation by the elderly and women, which have led to one of the highest participation rates among OECD countries.

Labour Participation Rate (%)

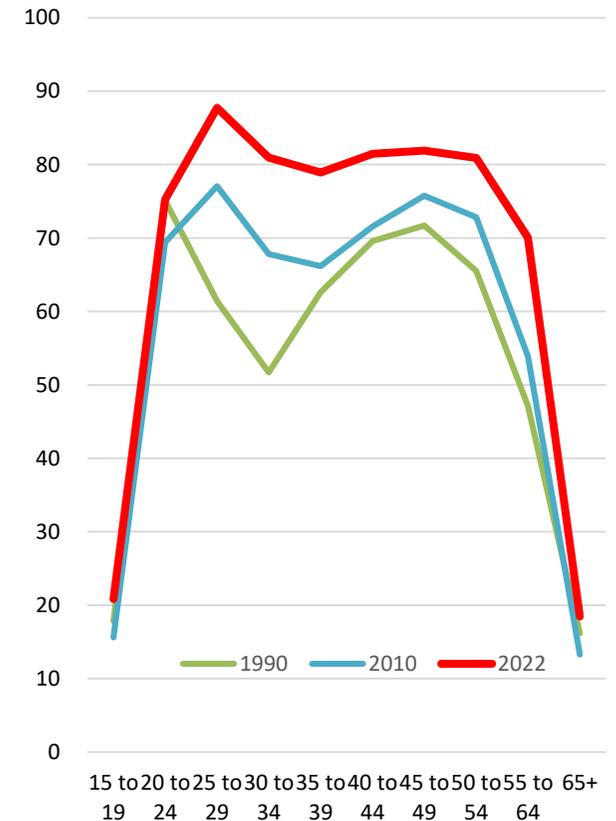
Age 65+



Women (Age 15-64)



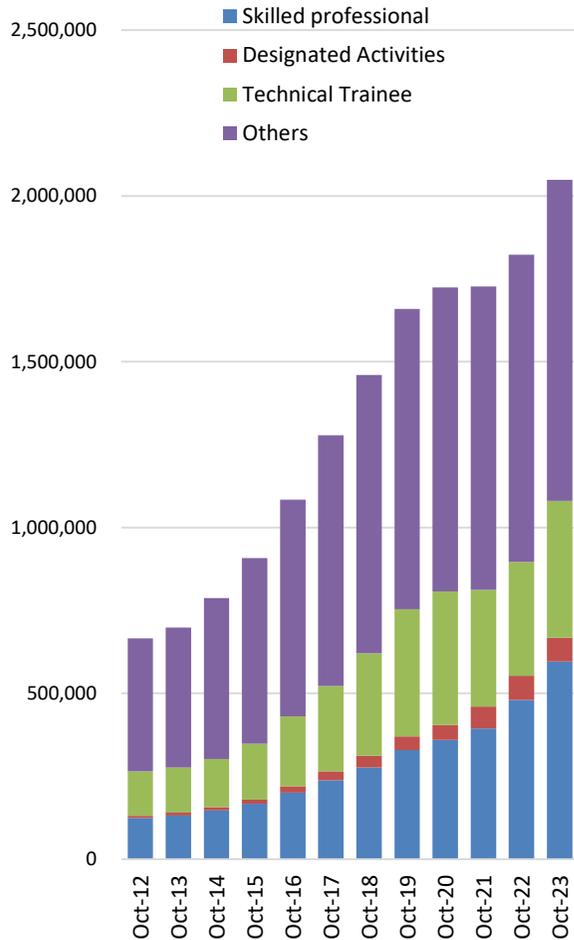
Women workforce by age



Japan as an Attractive Workplace/Tourist Attraction

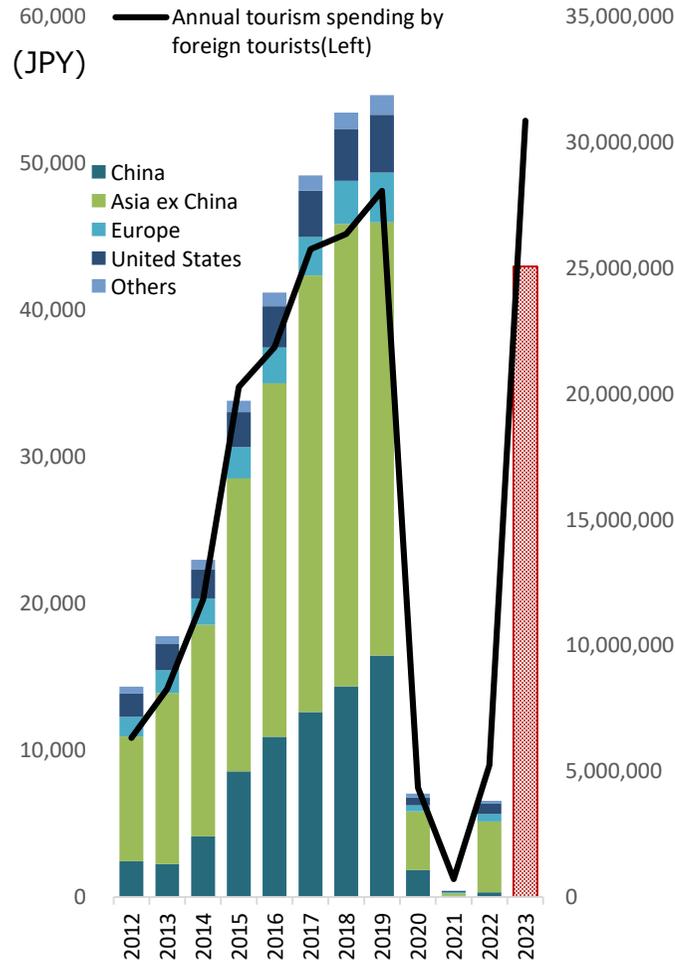
- ☐ In the first half of FY2023, the number of foreign workers hit a record high.
- ☐ The number of tourists and the size of inbound consumption are also strong and recovering to pre-COVID levels.

Number of Foreign Workers in Japan



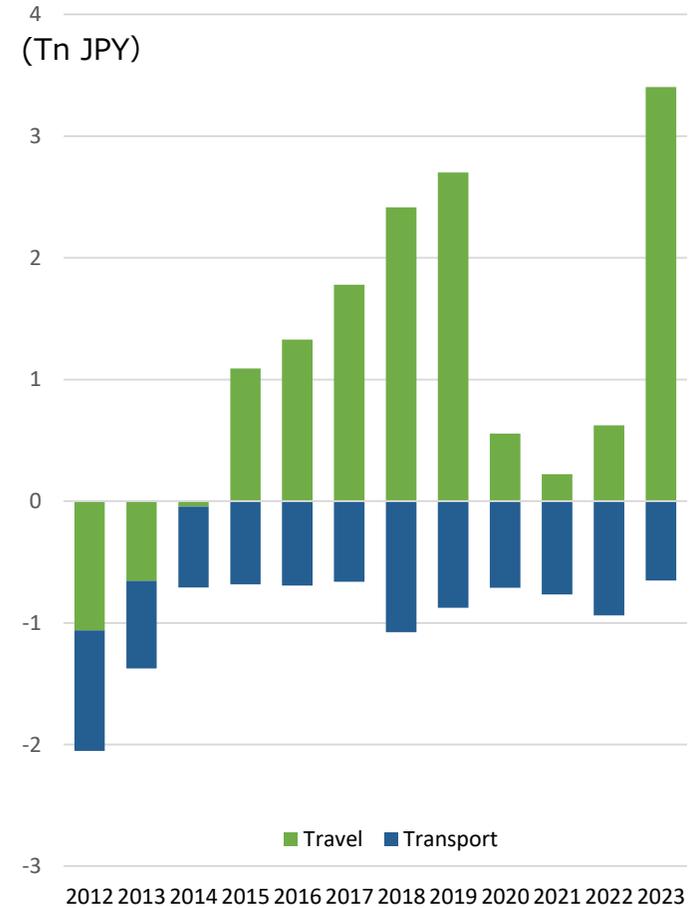
(source) Ministry of Health, Labour and Welfare

Number of Inbound Visitors and Spending



(source) JNTO, Japan Tourism Agency

Balance of Payment: Services



(source) Ministry of Finance

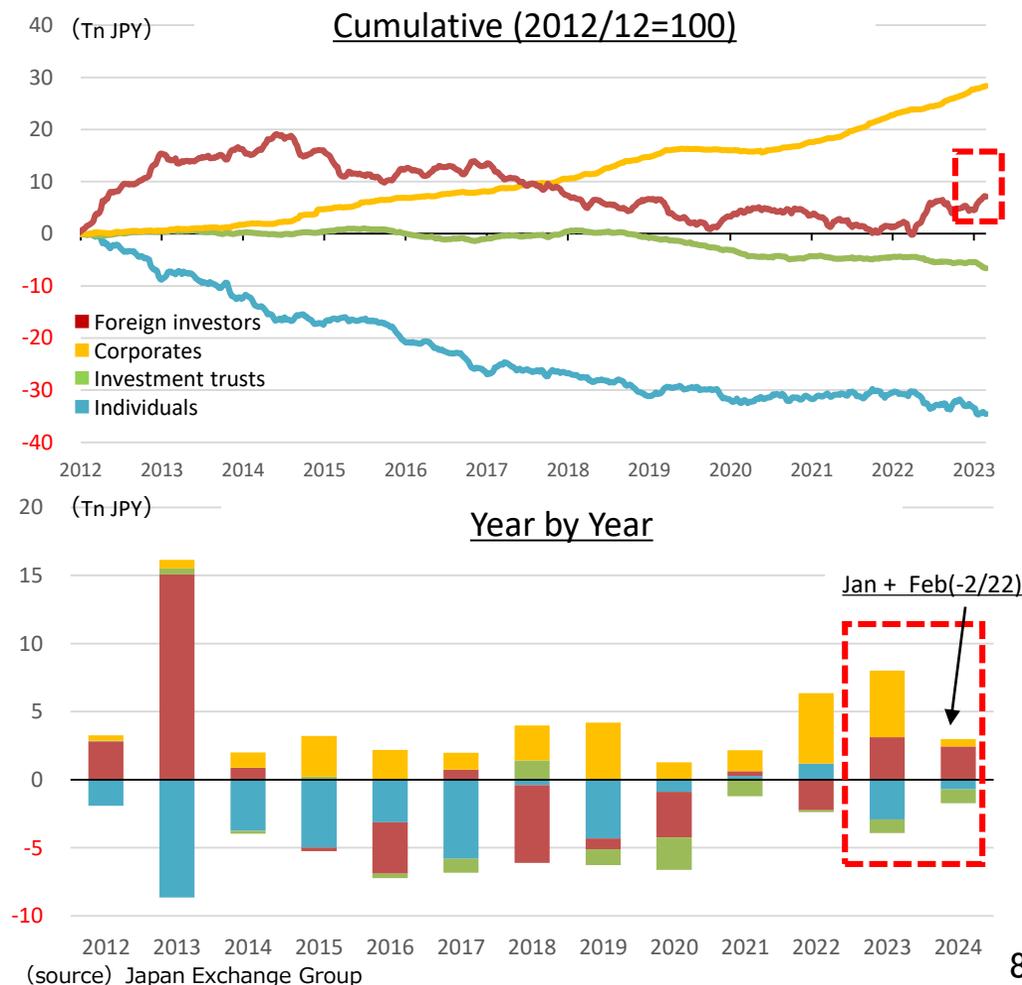
Japan as an Attractive Investment Destination

- ❑ The Nikkei 255 reached an all-time high surpassing the levels seen in 1989; primarily led by strong investment flow from overseas investors, which had fallen after peaking in 2013.
- ❑ The FSA is promoting Japan as a leading asset management center. This would make Japanese market even more attractive.

Stock Price (Nikkei 225)



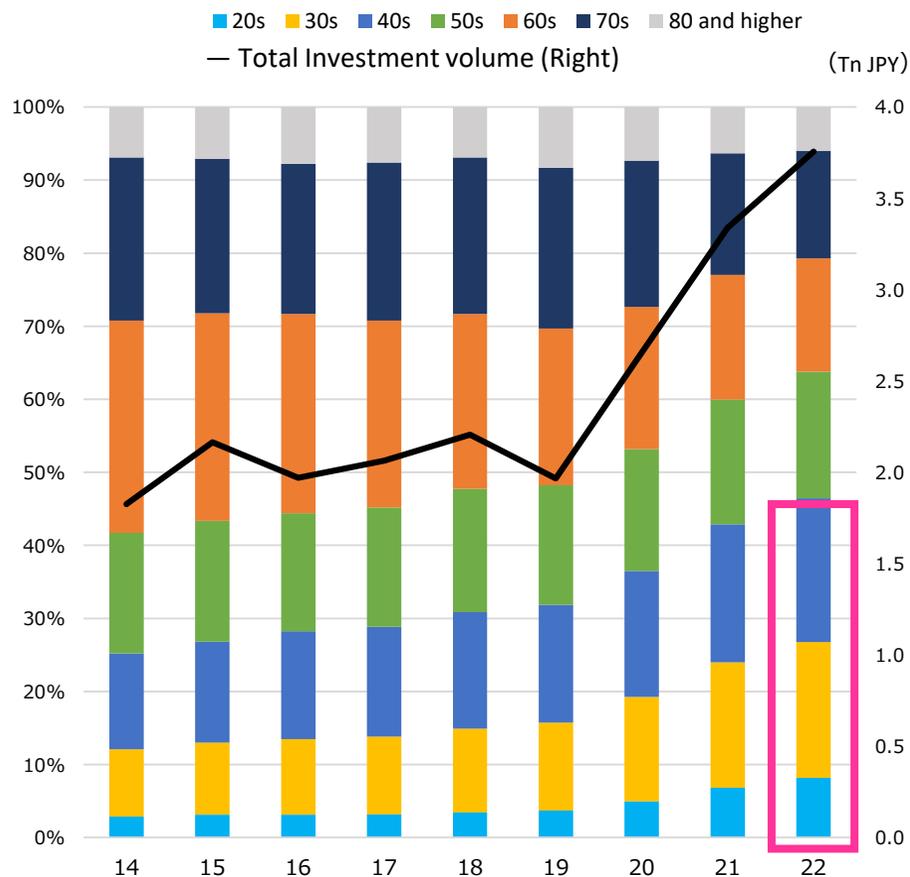
Invest trend in Japanese Stocks by Investor type



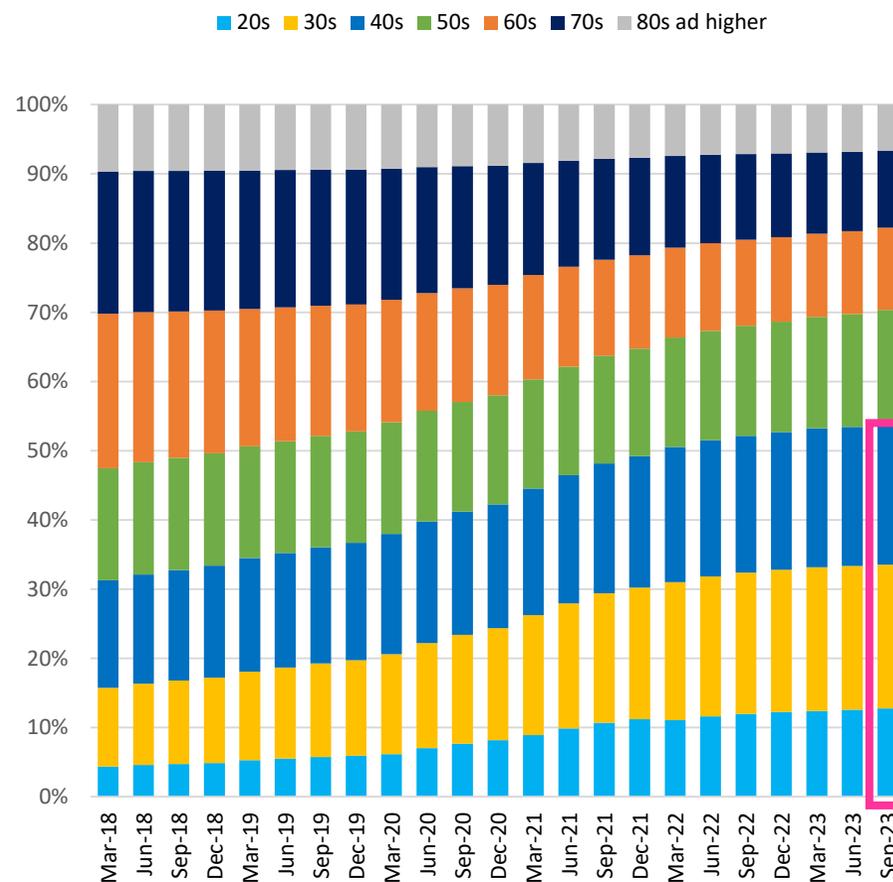
Trends seen in NISA – Younger Generation, More Investment Oriented

□ The younger generation have been rapidly catching up with the idea of ‘Savings to Investment’, with more investment through NISA even BEFORE the new NISA was introduced in 2024.

Investment through NISA accounts by Age



Opening of NISA accounts by Age

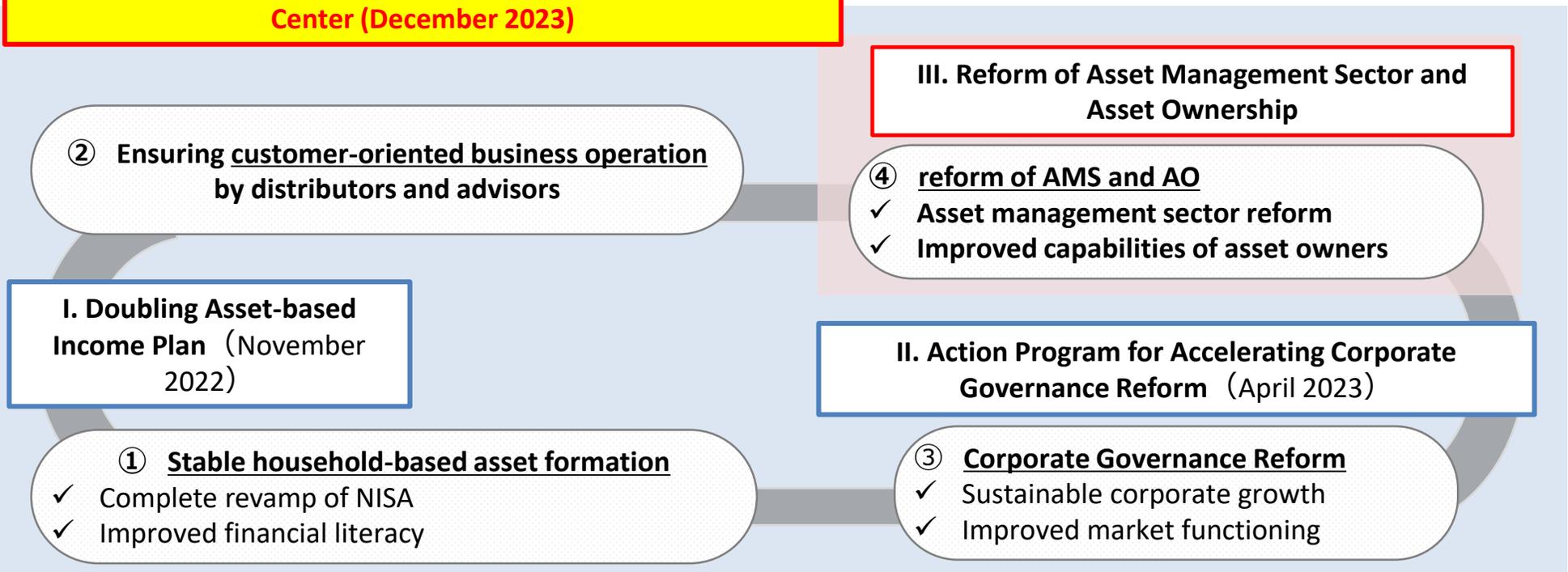


Promoting Japan as a Leading Asset Management Center

“Promoting Japan as a Leading Asset Management Center” – The Concept

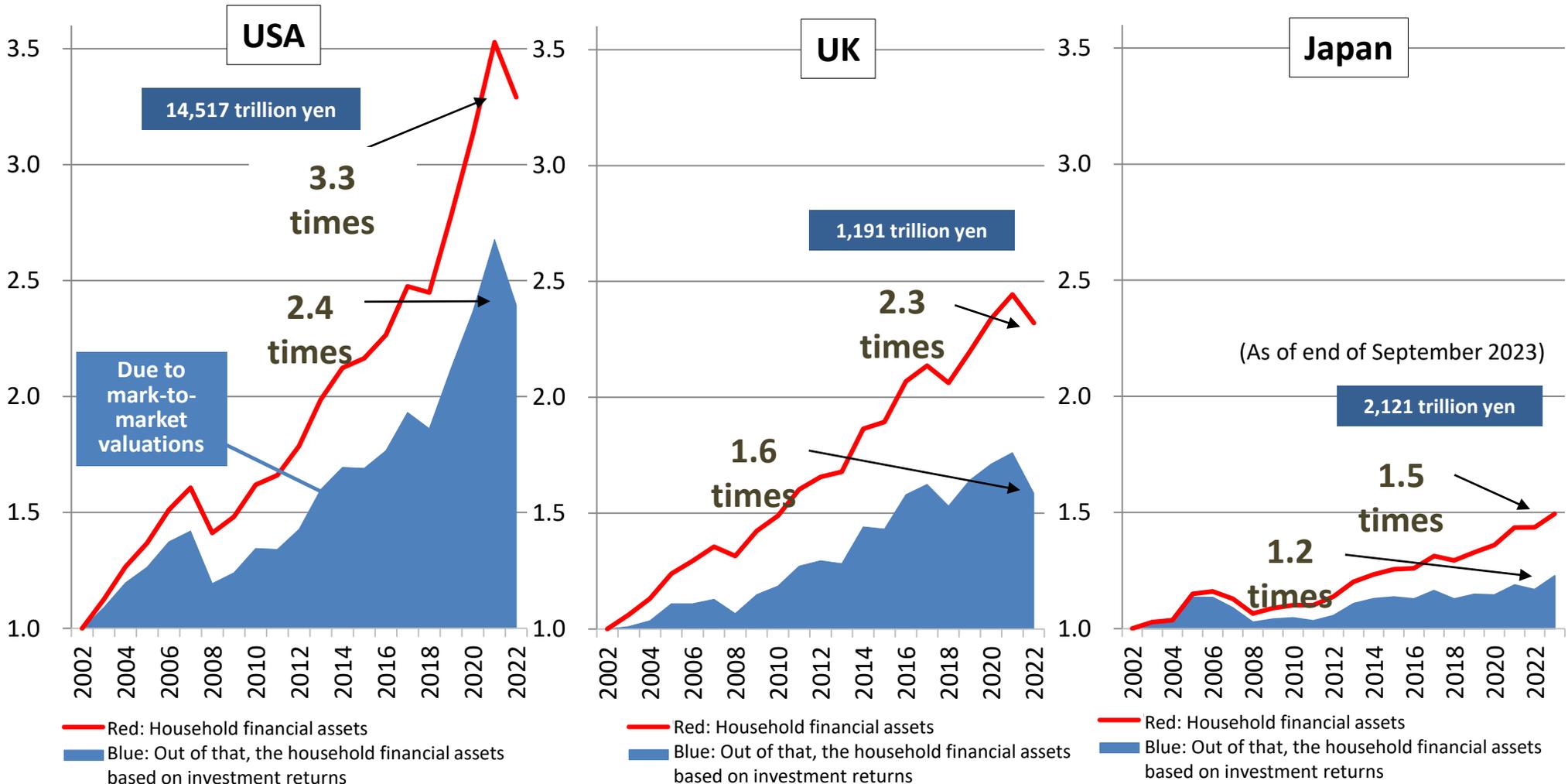
- ❑ Under PM Kishida’s leadership to realize a “new form of capitalism”, Japan has been undertaking policy initiatives to achieve a “**virtuous cycle of growth and distribution**”, including through an increased flow of Japan's household savings into productive investment.
- ❑ The government has been engaging with **various stakeholders in the investment chain** to encourage this move, including through:
 - I. **Doubling Asset-based Income Plan**; and
 - II. **Corporate governance reforms**.
- ❑ **III. Reform of Asset Management Sector and Asset Ownership** is the remaining piece for the growth of Japan’s economy and Japanese people’s asset income.

Policy Plan for Promoting Japan as a Leading Asset Management Center (December 2023)



Comparing Growth of Household Financial Assets

During the past 20 years, US and UK saw strong growth in their household financial assets at 3.3 times and 2.3 times respectively. Japan only saw a growth of 1.5 times.



(Source) Compiled by FSA based on statistical data from BOJ, FRB, and ONS
 (Note) The growth in assets due to investment evaluation is calculated based on the growth due to change in asset price and doesn't include interest received and dividends.
 Note: Value as of end of 2022. For USA and UK, based on the exchange rate at the end of Dec 2022. (1 US dollar = 131.12 yen, 1 pound = 158.47)

Encouraging Household Investment

Enhancing Financial Literacy and Customer-oriented Business Operations

A Launch of a New Organization to Promote Financial Education

- ❑ The Government has decided to set up a new organization (Japan Financial Literacy and Education Corporation) which provides and promotes financial education, from April this year. It will be in full operation from August.
- ❑ The new organization will operate as a public-private initiative, in cooperation with various stakeholders, including the FSA, BOJ and industry associations.

Key initiatives ahead

- i. Certifying “customer-oriented” financial advisors to serve as main actors in providing new organization’s financial education-related activities
- ii. Providing comprehensive and well-targeted financial education with ample resources underpinned by efficient management.
- iii. Providing a new training program for the certified advisors to improving the quality of financial education
- iv. Developing standardized and integrated teaching materials incorporating the most recent cases, including typical frauds.
- v. Providing individual consultation services tailored to the needs and concerns of investors/consumers.

Enhancing Customer-oriented Business Operations

❑ Building on the FSA's "Principles for Customer-Oriented Business Conduct" published in 2017, the Government recently amended the Financial Services Provision Act, to legally require financial firms to conduct customer-oriented business operations.

- ✓ The amended Act, which was recently enacted, introduced new legal obligations to financial businesses, including distributors and advisors, to conduct their business in a sincere and fair manner while taking into account the best interests of customers.
- ✓ The Act aims to foster competition among financial businesses to provide quality driven, customer-oriented services and products.
- ✓ In light of the need to ensure strong implementation to embed these requirements into the operation and culture of financial businesses, the FSA will closely monitor how firms develop, sell and manage products that are in the best interests of their customers, in line with the regulatory obligations.
- ✓ The monitoring will focus on; how deeply the top management is involved in the retail business; whether it has structured a sustainable business model in line with the obligations; what progress is made in improving the quality of their strategy to embed this obligation at ground level; whether a proper sales management system is in place to provide financial products, particularly high risk products, including structured products works, especially high-risk products; whether internal control is effective and whether a PDCA cycle is put in place.

Accelerating Corporate Governance Reform

Action Program for Accelerating Corporate Governance Reform (April 2023)

Goal – From Form to Substance

- Further advance **substantive** corporate governance reform.
- Each company will **not** only develop **a formal system** but also aim to make **substantial progress** in engaging in constructive dialogue with investors and improving autonomous reform of awareness by companies.

Increase corporate value over medium to long term

Management for profitability and growth

- Promote management aimed at achieving **profitability and growth** based on an accurate understanding of cost of capital (including reviewing business portfolios, investing in human capital and intellectual property, and appropriately allocating management resources for risk-taking).
- Along this line, the TSE is encouraging listed companies to do business with **full attention to cost of capital and share prices** and to disclose their strategy in line with this consideration.

Sustainability management

- Consider additional measures, reflecting companies profile, to **increase the diversity** of the Board of Directors and core personnel.

Constructive dialogue with investors

Encouraging stewardship activities

- Promote efforts by asset managers and asset owners to **enhance stewardship activities** (securing resources for stewardship activities, establishing incentive systems, and developing asset owner systems).
- Revise regulations such as the **Large Shareholding Reporting Rule** to enable effective stewardship activities.

Plan for Promoting Japan as a Leading Asset Management Center

- Work with Tokyo Stock Exchange (TSE) to follow up on the initiatives of planning, disclosure, and implementation by listed companies corresponding to TSE's request "Action to Implement Management that is Conscious of Cost of Capital and Stock Price".
- Promote effective engagement efforts between institutional investors and companies, including through a review of the large shareholding reporting rule.

TSE's request for action to encourage effective management of listed companies

- ❑ In March 2023, the Tokyo Stock Exchange (TSE) requested Prime- and Standard- Market listed companies to take the following actions:

Analysis

- Management accurately identifies company's cost of capital and return on capital.
- Based on figures identified, the Board of Directors conducts analysis and evaluation, comparing them with market's assessment

Planning and Disclosure

- The Board of Directors determines strategies and specific initiatives for improvement which includes targets and timeframes
- Disclose these plans, along with a current assessment, in a way that is easy for investors to understand.

Implementation

- Implement the plans to promote a more effective business management which pays due consideration to the cost of capital and share prices.
- Engage in active dialogue with investors based on company's disclosure.

Conduct an analysis on the progress made and update disclosures at least once a year

Our Policy Plan – A Way Forward

I. Reforming the Asset Management Sector

- Call for major financial groups to develop their **plans to describe their asset management business strategy, enhance their investment management capabilities and improve governance**
- Develop **principles for product governance** of asset management companies
 - Clarify the intended customers for individual financial products
 - Verify the balance between expected returns and costs/risks
- Rectify **Japan's unique business practices** and resolve **barriers to entry**
 - Encourage single-check calculation of net asset values of investment trusts
- Establish **special zones**
 - **Publish a policy package for the special zones by the end of June**
- Introduce a new **program to assist new entrants** (Emerging Manager Program)
 - Request **financial institutions to use emerging asset managers and not to exclude them simply because their business history is short. Figure out and publish good examples of initiatives** in financial groups.
 - In “Asset Owner Principles”, include a provision on the treatment of emerging asset managers in the fund manager selection.
 - Provide **a list of emerging asset managers (Entry List)**
 - **Deregulate** to allow asset managers to **outsource middle- and back- office operations**

II. Reforming Asset Ownership

- **Develop “Asset Owner Principles”** by summer 2024
 - Include common principles of investment policy, governance, and risk management.
- **Reform Occupational pension funds**
 - For defined benefit pensions (DBs), promote **reviews of the selection of the investment companies entrusted** for the best interest of beneficiaries.
 - Encourage the Pension Fund Association to **improve its joint management scheme**, including **enriching service lineup** for more small-scale DBs.
 - For defined contribution pensions (DCs), **promote disclosure of information such as on investment policy and investment portfolio so that pension beneficiaries can select appropriate products.**
 - Regarding DBs and DCs, **promote disclosure of investment information in a comparable manner** (to be conducted by Ministry of Health, Labour and Welfare).

III. Promoting financing for growth and diversifying investment opportunities

- **Promote investment in start-up companies with growth potentials**
 - Develop principles for venture capital funds
 - Deregulate to enhance investment crowdfunding
 - Promote issuance and circulation of unlisted securities

- **Diversify investment opportunities, including alternative investments and sustainable investments**
 - Allow partial inclusion of non-listed equities in investment trusts
 - Hold Dialogue on Enhancing Sustainability Investment Products by the end of 2023 (has been kicked-off)

IV. Effective Implementation of Stewardship Activities

- Work with Tokyo Stock Exchange (TSE) to follow up on **the initiatives of planning, disclosure, and implementation by listed companies** corresponding to TSE's request "Action to Implement Management that is Conscious of Cost of Capital and Stock Price".
- Promote effective engagement efforts between institutional investors and companies, **including through a review of the large shareholding reporting rule.**

V. Strengthening Public Relations and Communications

- **Will launch an "Asset Management Forum"** in collaboration with domestic and overseas investment companies and investors. Will be held in conjunction with **2nd round of "Japan Weeks" in autumn 2024.**
- **Exchange views** with local governments and investors on the Policy Plan, and **consider further additional policy measures.**

*The Cabinet Secretariat will conduct a review of progress around June 2024.

Establishing Special Zones for Financial and Asset Management Businesses

- ❑ The Government plans to establish "Special Zones for Financial and Asset Management Businesses", which aims to encourage financial institutions including asset management firms, both domestic and abroad, to start or to expand their business in such zones.
- ❑ The Government and like-minded cities will work together, to provide incentives and assistance, with particular focus on the following items seen below;
- ❑ Tokyo, Osaka, Fukuoka and Sapporo have expressed interest establish this Zones

Concrete policy measures in contemplated

- ✓ Deregulation and regulatory exemptions on:
 - finance-related activities
 - business and living environment-related activities
- ✓ Easier access to administrative services
 - providing information in English
 - hiring English speaking staffs
- ✓ Supporting startups
 - providing regulatory exemptions and special treatment

Next Action

- Plan to announce a comprehensive package by the end of June.

Developing an Asset Owner Principle

- ❑ Given the important role of asset owners in fostering a more sophisticated asset management, [Japanese Government plans to develop an Asset Owner Principle by this summer](#).
- ❑ While asset owners are diverse, including public pensions, mutual funds, corporate pensions, insurance companies, and university funds, [there are common responsibilities and roles](#) that they can play regarding asset management.
- ❑ For example, asset owners need to set goals based on investment objectives, and to monitor closely the performance of investment managers, to pursue the best interests of beneficiaries.
- ❑ Items on [investment policy, governance, and risk management](#) could be included in the Principle to be developed.

Asset Owner	type	Competent ministries	Asset size (billion \$)	No. of entities
Life Insurance Companies	Insurance	FSA	2722	42
Government Pension Investment Fund (GPIF)	pension	MHLW	1340	—
Corporate Pension (DB)	pension	MHLW	441	11,545
Non-Life Insurance Companies	Insurance	FSA	197	33
Pension Fund Association for Local Government Office	pension	MIC	191	—
Pension Fund Association (PFA)	pension	MHLW	81	—
Organization for Small & Medium Enterprises and Regional Innovation	pension	METI	74	—
Japan Science and Technology Agency (JST)	University	MEXT	67	—
Federation of National Public Service Personnel Mutual Aid Associations (KKR)	pension	MOF	61	—

Reforming Asset Ownership

Occupational Pension funds

❑ Defined benefit pensions (DBs)

- Facilitate **regular review of list of mandated investment firms**
- Encourage the Pension Fund Association to **improve its joint management scheme**, including **expanding its service lineup** for easier participation by small-scale DBs.

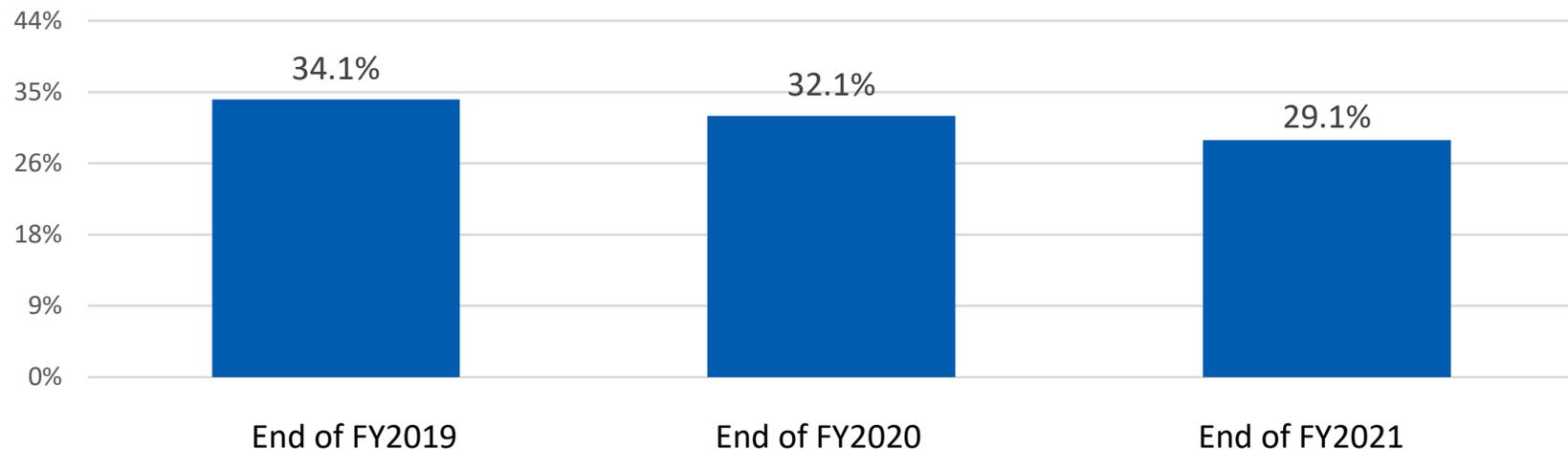
❑ Defined contribution pensions (DCs)

- **Enhance disclosure of investment policy and investment portfolio** to enable pension beneficiaries to select products in line with their needs.

❑ For both DBs and DCs

- MHLW to **promote disclosure of investment information** in a comparable manner.

Percentage of DC participants who solely invest in principal-protected products



Annex

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)

to June 2023

From July 2023

Financial Institutions

Scenario analysis

Published the results of pilot exercises of climate scenario analysis

Improve the methodology and framework of scenario analysis

Decarbonization

Published a guide for FIs on how to encourage costumers' decarbonization.

Strengthen engagement at FIs to promote transition
International dissemination and penetration of transition finance

Asia GX

Launch of Asian GX Consortium

Impact investment

Published a draft guidelines on impact investment (ESG Working Group)

Finalize the guidelines with inputs from various stakeholders. Launch Impact Investment Consortium (November 28).
Share good case studies in collaboration with stakeholders.

Regional decarbonization

Accelerate support for regional FIs and SMEs

Support regional effort, including through; the establishment of consultative bodies; provision of subsidies to FIs; encouragement of collaboration among FIs.

Biodiversity

Discuss the impact on and role of finance.

Capacity building

Publication of Sustainable Finance Skill Map and FI's response to questionnaire on human resource development.

Encourage the development of human resources. Disseminate the concept of sustainable finance particularly to the younger generation.

Cross-cutting Issues