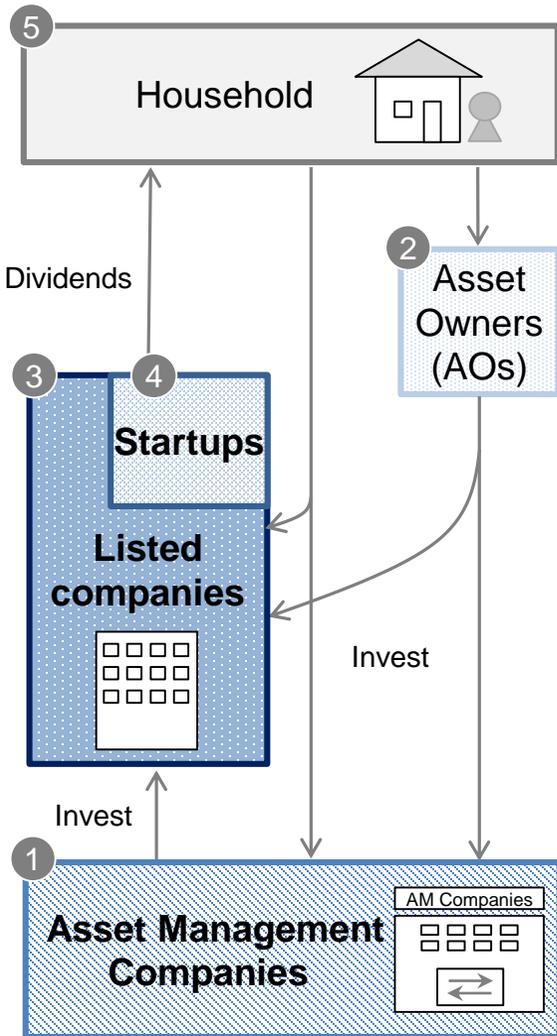


# Report of Working Group on Capital Market Regulations and Asset Management Task Force of the Financial System Council (Overview)

- Improving the capabilities of asset management (AM) companies who are playing an important role in managing financial assets and making returns for households. Promoting a virtuous cycle of growth and asset-based income in the investment chain through enhancing funding provision for startups and feeding those returns back to households. Promoting initiatives for achieving a leading asset management center.



## 1 Enhance capability of asset management >> Improve return of the assets of investors including households and value for investees

- Deregulate to allow outsourcing of middle and back-office operations. ★
- Support program for new entrants (Japanese EMP).
- Enhance the capability and governance of asset management companies in major financial groups.
- Formulate the principles for product governance to maintain the quality of financial products.
- Rectify Japan's unique business practices of investment trusts (encourage single-check calculation).

## 2 Encourage financial institutions' efforts for AOs and participants of defined contribution pension plans >> Achieve client's best interests

- Encourage financial institutions' (FIs') efforts in asset management to achieve client's best interests and encourage FIs to choose and propose appropriate financial products and enhance disclosure for participants of a defined contribution pension plan (DC).

## 3 Effective implementation of stewardship activities >> Increase the attractiveness of Japanese market and companies

- Review the large shareholding reporting rule to increase corporate value through facilitating effective dialogues between companies and investors. ★

## 4 Enhance funding provision for startups and diversify the asset class >> Revitalize startups and expand profit-earning opportunity

- Formulate principles for venture capital (VC) funds.
- Encourage investment trusts and investment corporations to invest in unlisted equities.
- Revitalize investment crowdfunding.
- Clarify disclosure regulations concerning restricted stock units and other similar types of stock-based compensation.
- Vitalize the secondary market of unlisted securities. ★

## 5 Improve the investment environment of households >> Improve their financial literacy and promote the shift from savings to investment

- Promote financial and economic education with a new organization.
- Raise the upper amount of cumulative investment in securities with credit card payment (JPY50k→100k) aligning with the upper limit of "Tsumitate Quota" in the new NISA system. ★

# Enhance capability of asset management

(⇒ Improve return of the assets of investors including households and value for investees)

1

**a** Enhance the capability and governance of asset management companies in major financial groups

- **Require major financial groups with asset management companies to develop plans** for improving their capabilities for asset management and their governance.

**b** Product Governance

- **Formulate principles for product governance** to maintain appropriate formulation, management and disclosure of financial products by AM companies.\*

※Revise Principles for Customer-first Business Practices

**c** Rectify Japan's unique business practices in investment trusts

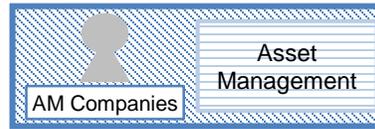
- Encourage efforts to **rectify double-check calculation.**
  - **Revise the supervisory guidelines and add a materiality policy** when a mistake in the calculation of the prices of investment trusts has occurred.
- ⇒ removing barriers to entry

**d** Deregulate to allow outsourcing of middle and back-office operations

- **Deregulate to allow outsourcing of middle and back-office operations.**



Entrust the whole AM business



Allow to entrust the whole AM business

- **Abolish the regulation prohibiting asset management business from entrusting all of their assets to another company.**
  - Establish rules for managing an entrusted company.
- ⇒ **Encouraging this entrustment makes AM companies more diversified**

Outsource Middle and Back-Office Operations



Deregulate the requirements for asset management business

- Establish a **voluntary registration system** for an entity entrusted with **middle and back-office** operations and establish a behavior regulation (duty of loyalty and care, etc.)
  - **Deregulate the registration requirement** (mainly capacity) when outsourcing those types of business to a registered entity.\*
- \*Have to manage the entrusted company when outsourcing

**e** Support program for new entrants (Japanese EMP [Emerging Managers Program])

- **Encourage FIs and AOs** to find and invest in brilliant new entrants. And also **publish their efforts on the FSA website.**
- **Provide a list of new entrants to FIs and AOs.**
- **Expand the Financial Start-up Support Program<sup>(\*1)</sup> and the Financial Market Entry Office.<sup>(\*2)</sup>**
- **Deregulate to allow outsourcing of middle and back-office operations.**

\*1 Help overseas financial companies establish an office in Japan through providing information, consultation, and assistance regarding the initial set-up and livelihood support.

\*2 Provide all the regulatory processes, from pre-application consultation and registration to supervision after the registration for newly entering asset management firms in English.

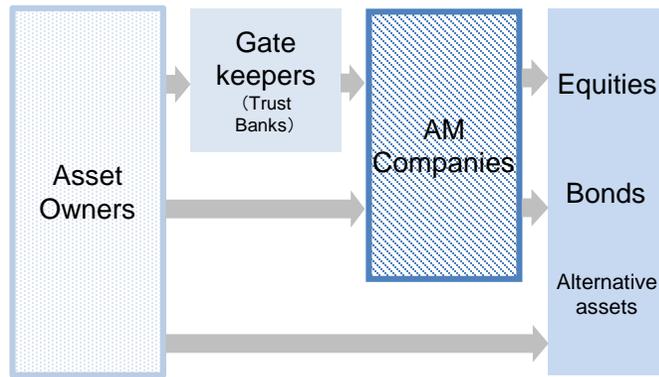
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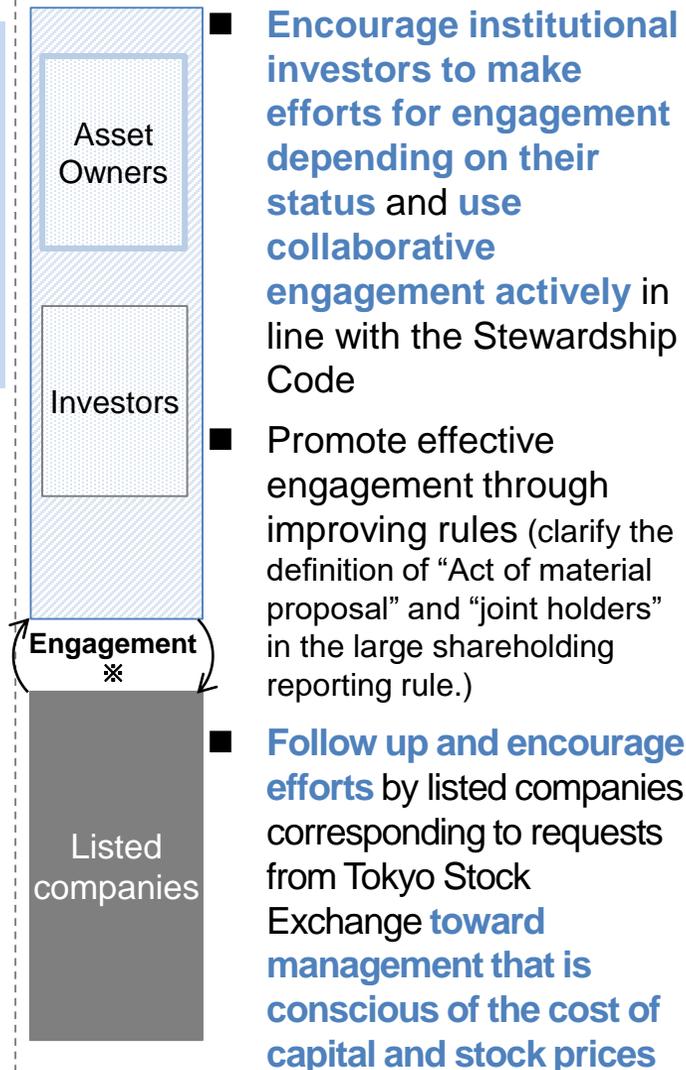
# Efforts for Asset Owners, Listed Companies, and Households

## 2 Efforts by FIs for AOs (⇒Achieve client's best interests)



- **AM companies should manage the assets of AOs for achieving client's best interests** with taking account of AOs' risk tolerance.
- **FIs conducting operational management for a DC should provide appropriate products and more information** from the viewpoint of achieving the client's best interests.
- **FSA monitors FIs** who are supporting AOs **and requests improvement when necessary.**

## 3 Effective implementation of stewardship activity (⇒Increase the attractiveness of the Japanese market and companies)



- **Encourage institutional investors to make efforts for engagement depending on their status and use collaborative engagement actively** in line with the Stewardship Code
- Promote effective engagement through improving rules (clarify the definition of "Act of material proposal" and "joint holders" in the large shareholding reporting rule.)
- **Follow up and encourage efforts** by listed companies corresponding to requests from Tokyo Stock Exchange **toward management that is conscious of the cost of capital and stock prices**

※ Effective dialogues between companies and investors

## 5 Improve the investment environment of households (⇒Improve their financial literacy and promote the shift from savings to investment)

Promote financial and economic education with a new organization

- It is necessary to improve the financial literacy of households so they can choose appropriate financial products for themselves.
- **Promote financial and economic education by establishing a new organization under the cooperation of the public and private sectors**

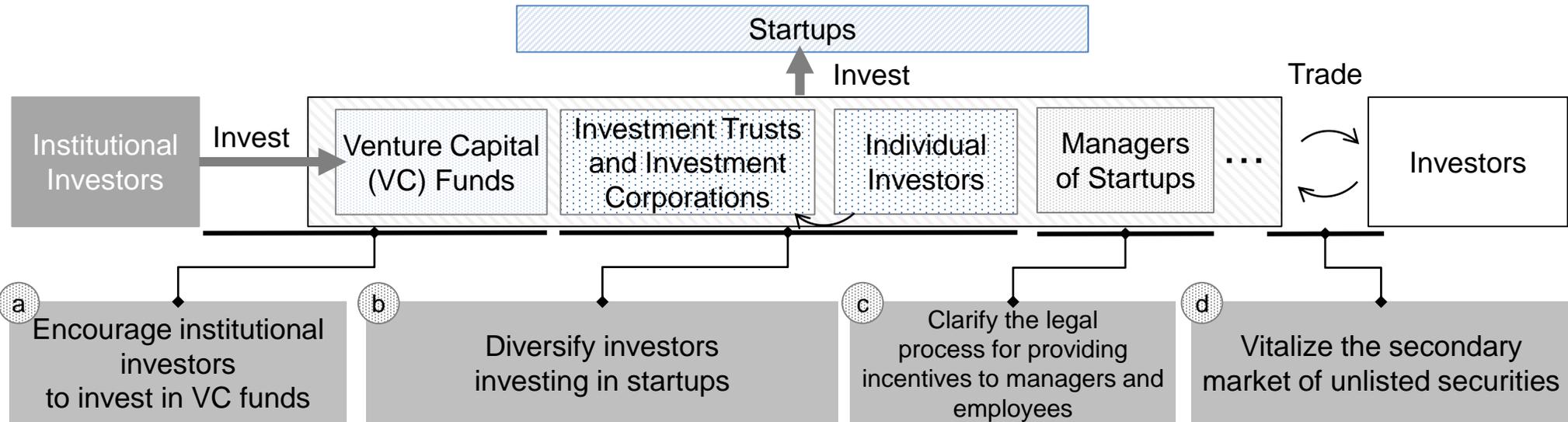
Raise the upper amount of cumulative investment in securities with credit card payment

- **Raise the upper amount of cumulative investment in securities with credit card payment** from JPY50k to 100k **aligning with the new NISA※** system

※ A Japanese version of Individual Savings Account

# Enhance funding provision for startups and diversify the asset class

(⇒ Revitalize startups and expand profit-earning opportunities)



**a** Encourage institutional investors to invest in VC funds

**b** Diversify investors investing in startups

**c** Clarify the legal process for providing incentives to managers and employees

**d** Vitalize the secondary market of unlisted securities

- **Formulate the principles for VC funds** for improving the governance of VC funds and increasing the attractiveness of VC funds as the asset class for long-term investment.
- **Promote fair value measurement** to visualize the fair value of the securities that VC funds hold.

- Set up the framework for **incorporating unlisted equities in investment trusts** through revising self-regulatory rules and **promote listed venture funds** through optimizing the frequency of the disclosure.
- Revitalize investment crowdfunding.
  - **Increase the maximum total amount of funding** from JPY100mn to **500mn** (companies who fundraise within this amount range can use the simplified disclosure format.)
  - **Set the investment limit corresponding to the amount linked to the annual income and net asset** instead of the current limit JPY500 thousand.

- **Set up a new exception rule to allow companies to submit extraordinary reports** instead of securities registration statements when they grant **RSU** and other similar types of stock-based compensation to managers and employees.
- \*RSU = Restricted Stock Unit

- Encourage the new entry of **brokerage businesses for unlisted securities**.
  - **Deregulate the registration for Type-I Financial Instruments Business** on the condition that an operator solicits professional investors and does not receive deposits in principle.
  - **Allow registered Type-I Financial Instruments Business Operators to operate proprietary trading systems (PTSS)** within a certain trading size **without authorization**.