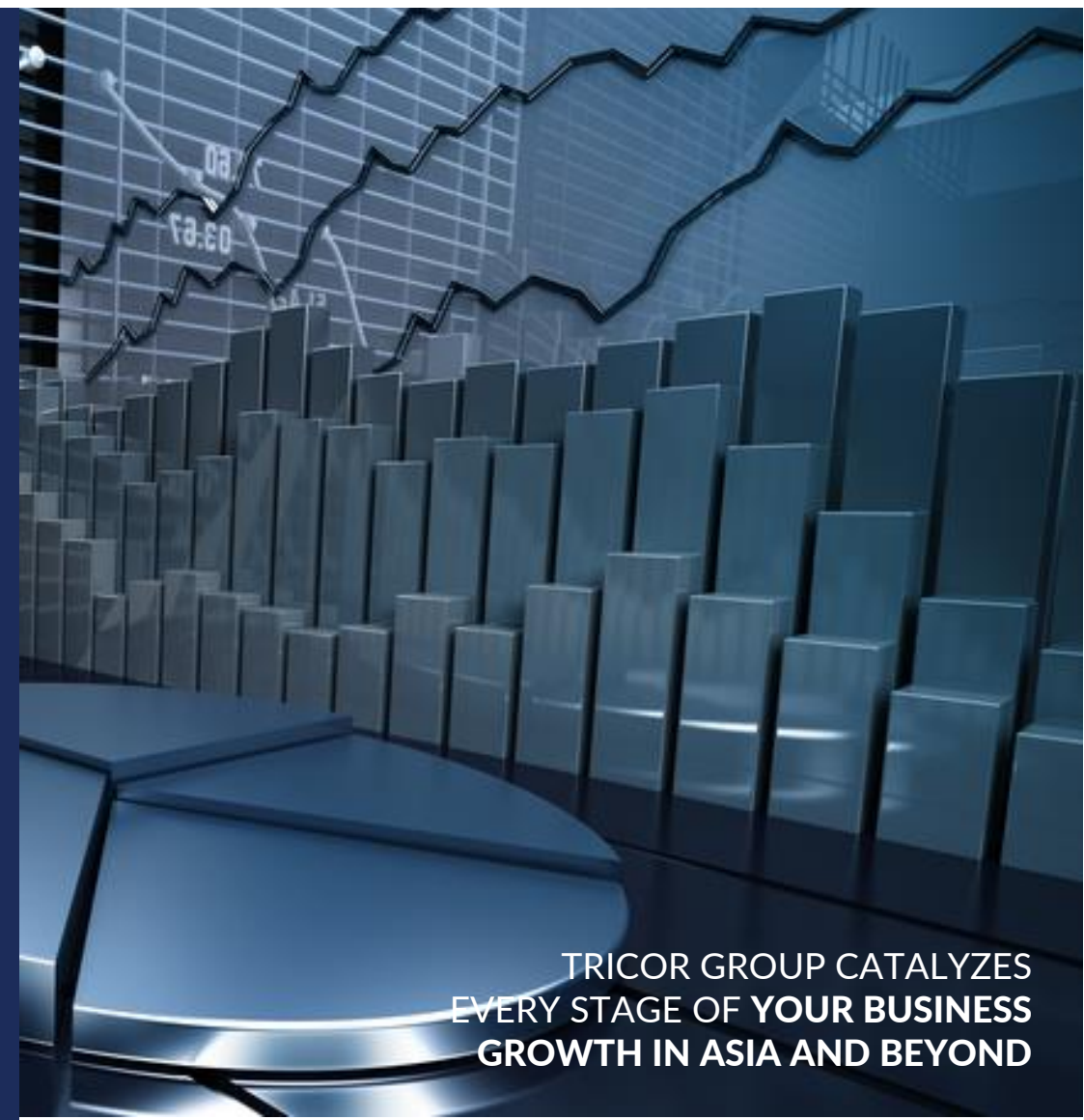


MARKET EXPANSION WEBINAR SERIES:  
New Business Opportunities in Japan  
for Overseas Asset Managers 2023

## Part 6: Private Equity

January 30, 2023 | 4 PM (JST / UCT+9)



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# Today's Presenters



## GUEST SPEAKERS:



**Hideo Nagura**  
Partner  
Corporate Finance  
PwC Advisory LLC



**Satoshi Matsunaga**  
Partner  
Financial Services  
PwC Tax Japan



**Stuart Porter**  
Partner  
Financial Services  
PwC Tax Japan



**Keiko Shimizu**  
Partner  
Nagashima Ohno &  
Tsunematsu

## FEATURED SPEAKERS:



**Takuma Tanaka**  
Deputy Director,  
Strategy Development  
Division  
Japan Financial  
Services Agency (JFSA)



**Kevin Smythe**  
Director  
Sales & Marketing  
Tricor Japan



**Gary Tok**  
Group Chief  
Commercial Officer  
Tricor Group

## MODERATOR:

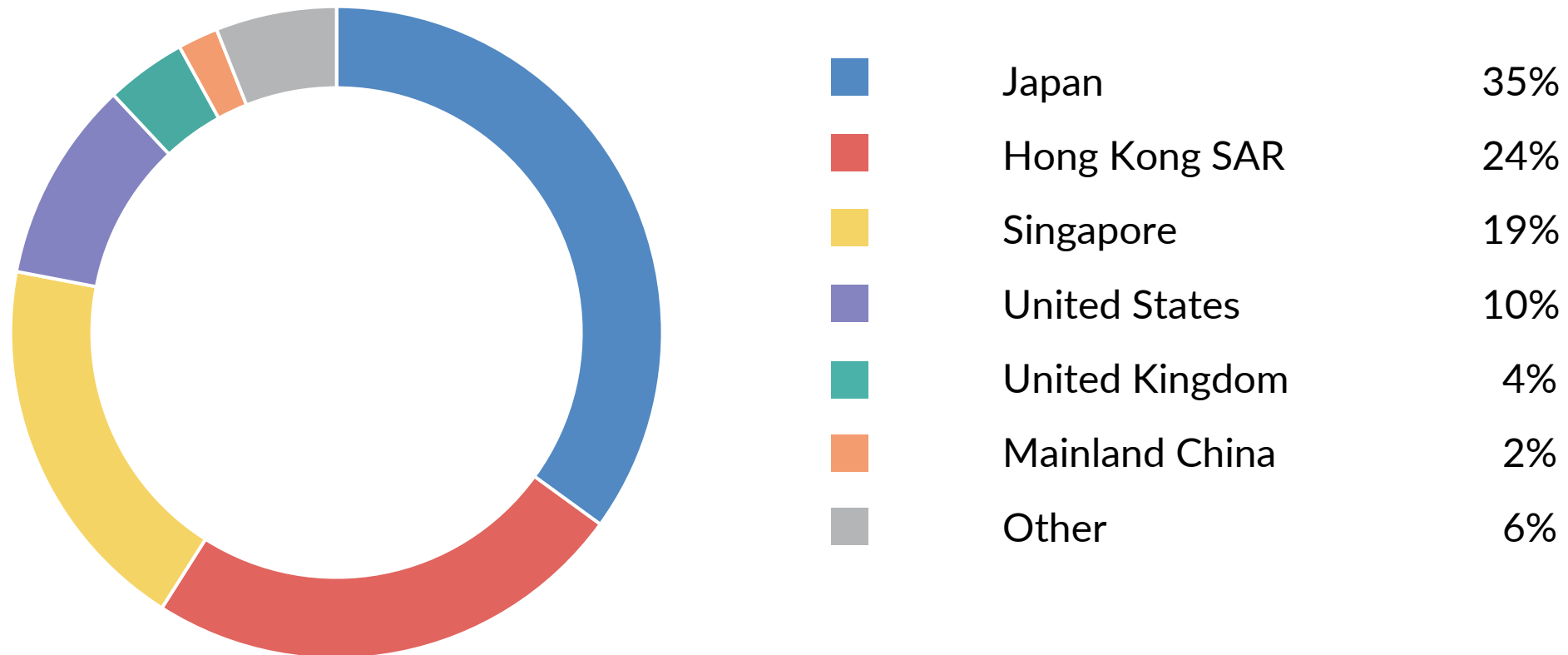
# Schedule



	4:00pm	Opening by Gary Tok (Tricor Group)	
	4:05pm	<b>International Financial Center Initiative</b>	Takuma Tanaka (JFSA)
	4:10pm	<b>Japan Wants You</b>	Kevin Smythe (Tricor Japan)
	4:15pm	<b>Private Equity Market Overview</b> <ul style="list-style-type: none"><li>• Market in 2022</li><li>• Deal Drivers (Corporate Curve Outs, Succession, Activists)</li></ul>	Hideo Nagura (PwC Advisory)
	4:40pm	<b>Key Tax Highlights for Private Equity Funds</b> <ul style="list-style-type: none"><li>• Fund Structuring</li><li>• Doing the Deal</li></ul>	Stuart Porter (PwC Tax Japan) Satoshi Matsunaga (PwC Tax Japan)
	5:00pm	<b>Regulations Related to Private Equity Business</b> <ul style="list-style-type: none"><li>• Overview of Regulations</li><li>• Japan Office &amp; License / Registration Requirements</li><li>• Specially Permitted Business for QIIs (Article 63 Exemption)</li></ul>	Keiko Shimizu (NO&T)
	5:30pm	<b>Q&amp;A Session</b>	Gary Tok (Tricor Group)
	5:45pm	Closing by Gary Tok (Tricor Group)	

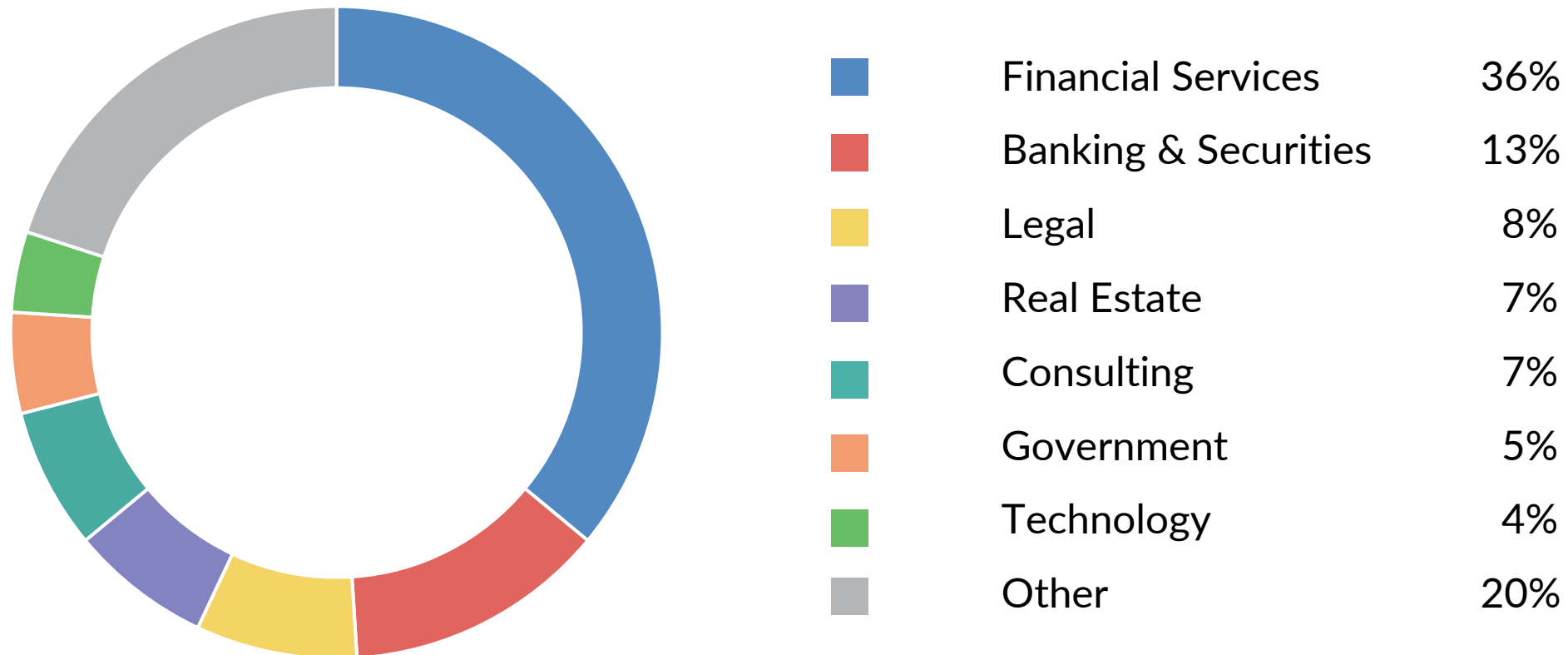
# A little about you, the audience - Location

## WHERE IS YOUR COMPANY BASED?



# A little about you, the audience - Industry

## WHAT INDUSTRY IS YOUR COMPANY INVOLVED IN?





# International Financial Center Initiative

**Takuma Tanaka**

Deputy Director

Strategy Development Division

Financial Services Agency, Japan (JFSA)



# International Financial Center Initiative



The “International Financial Center Initiative” continues to be a top priority for the Government of Japan.

“ In order to realize the new form of capitalism I illustrated today, **we need to revive Japan as an international financial center.**

When I was the Chairperson of the Policy Research Council of the Liberal Democratic Party, I made decisions that helped to facilitate the entry of foreign investment managers, revive of the corporate governance code, and introduce greater flexibility in the requirements for professional investors. **As Prime Minister, I will continue to lead to achieve steady progress.** ”

Speech by Prime Minister KISHIDA Fumio at the Guildhall in London (May 5, 2022)



# 15 Registration Cases Completed By JFSA

Since its opening, the Financial Market Entry Office has completed 15 registration cases.

	Name	Registration Date	Licenses	From
1	Affirmative Investment Management	Apr. 2021	IAA	GBR
2	Schonfeld Strategic Advisors	May 2021	IM & IAA	USA
3	Columbia Threadneedle Investments	Aug. 2021	IAA	USA
4	Dymon Asia Capital Japan	Aug. 2021	Pro-IM	SGP
5	EQT Partners	Dec. 2021	IAA	SWE
6	Minerva Growth Partners	Feb. 2022	IAA	HKG
7	Federated Hermes	Apr. 2022	IAA	USA
8	BMO Japan Securities	Jun. 2022	Type I	CAN
9	Pantheum Partners	Jul. 2022	IAA	HKG
10	Columbia Threadneedle Investments	Aug. 2022	Type II	USA
11	Citadel Securities	Aug. 2022	Type I	USA
12	EQT Partners	Sep. 2022	Type II	SWE
13	HS Group Japan Cayman	Nov. 2022	IAA	HKG
14	Newton Investment Management Japan Ltd.	Dec. 2022	IM	USA
15	ALLSPRING GLOBAL INVESTMENTS JAPAN LIMITED	Jan. 2023	IAA	USA

# Financial Market Entry Office - Case Studies



Our official website publishes several “case studies” to share practical insights for incoming asset managers.



June 2021  
**Affirmative Investment Management Japan Inc.**  
Mitsuo Kojima  
President &  
Representative Director



March 2022  
**Minerva Growth Partners, Inc.**  
(Left) Kensuke Murashima  
(Right) Kei Nagasawa  
Representative Director,  
Co-Founder & Managing Partner



December 2022  
**BMO Japan Securities Ltd**  
Yuko Kamiya  
Representative Director,  
General Manager



October 2021  
**Columbia Threadneedle Investments Japan Co., Ltd.**  
Yoshihisa Kojima  
Representative Director &  
CEO, Head of Japan



June 2022  
**Federated Hermes Japan Ltd**  
Wataru Horii  
Representative Director,  
Head of Distribution, Japan



January 2023  
**HS Group Japan Cayman**  
Johannes Kaps  
Director, Branch  
Representative



## **JFSA Website**

[fsa.go.jp/internationalfinancialcenter/en](https://fsa.go.jp/internationalfinancialcenter/en)



## **JFSA LinkedIn**

[linkedin.com/company/  
financial-services-agency-japan](https://linkedin.com/company/financial-services-agency-japan)



## **JFSA Email**

[marketentry@fsa.go.jp](mailto:marketentry@fsa.go.jp)

## **Disclaimer:**

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# Japan Wants You

Kevin Smythe  
Director, Sales & Marketing  
Tricolor Japan

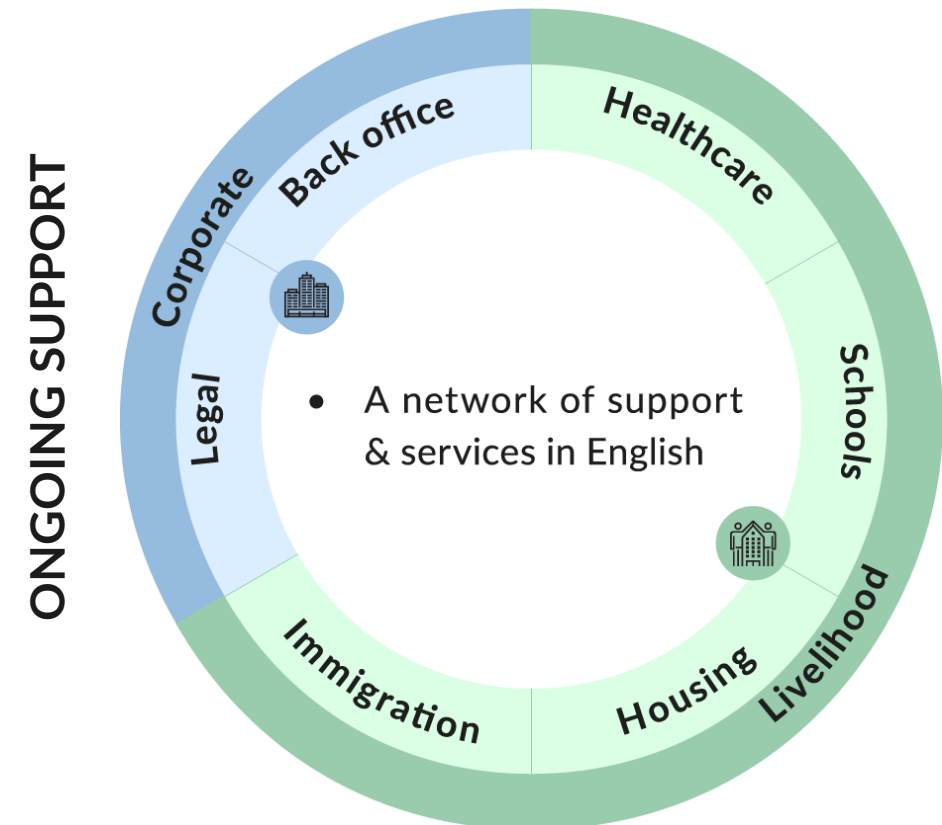
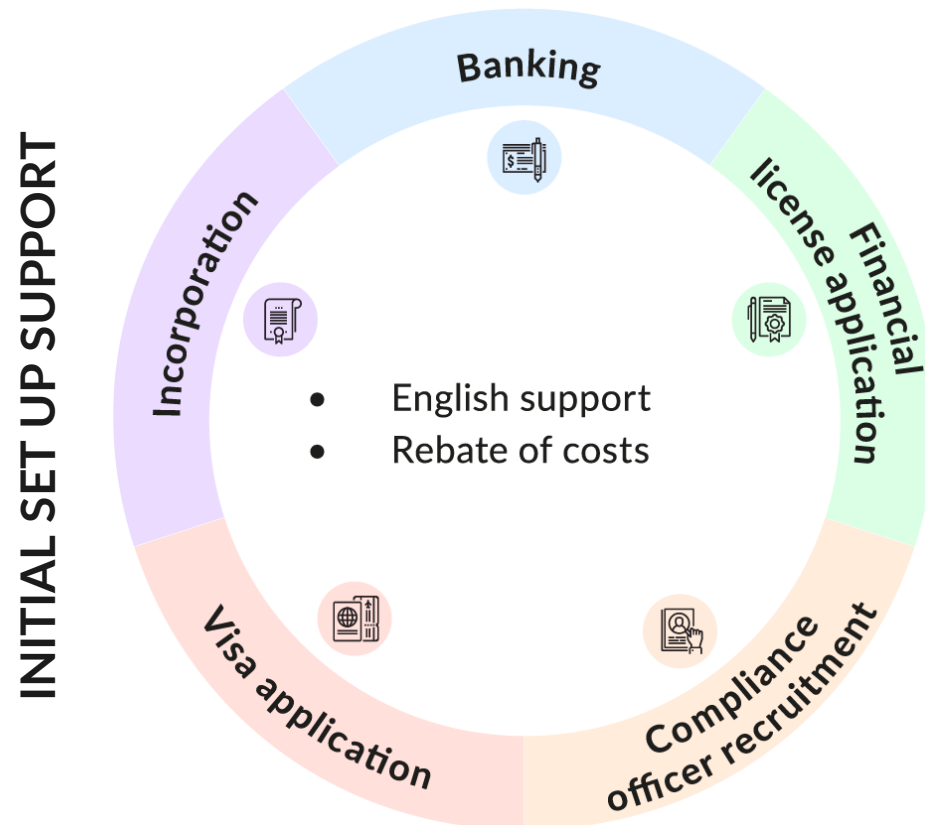
tricolor





# Financial Start-up Support Program

The Financial Start-up Support Program is one-stop solution for foreign asset managers looking to enter the Japanese market.



# Eligibility - Who Can Apply?

Successful applicants must fulfil both of the following categories (a) and (b)

## (a) Applicant who falls under either of the following categories

- ① Applicant who is engaged in the business described in items (i) and (ii) below in a foreign country respectively for the categories set forth in item (i) and (ii).
  - (i) Applicant wishing to register for Type 1 Financial Instruments Business: Same kind of business as Type-I Financial Instruments Business
  - (ii) Applicant wishing to register for the business listed in (b)②-④: Same kind of business as Investment Advisory and Agency Business or Investment Management Business
2. Parent company, etc., subsidiaries, etc., or affiliated companies, etc. of an entity engaged in business prescribed in ①
- ③ Applicant who has worked in an entity engaged in business prescribed in ① as a senior officer or employee (i.e. where he/she is named as a senior officer or an important employee in the application documents)

## (b) Application for either of the following types of business under the Financial Instruments and Exchange Act ("FIEA")

- ① Type-I Financial Instruments Business\*1 (Article 28(1) of the FIEA)
- ② Investment Management Business (Article 28(4) of the FIEA)
- ③ Investment Advisory and Agency Business (Article 28(3) of the FIEA)
- ④ Type-II Financial Instruments Business relevant to asset management business in either of the following cases
  - (i) where selling a beneficial certificate of an investment trust or a fund established by itself (Article 28(2)(i) of the FIEA)
  - (ii) where conducting a so-called Deemed Type-II Financial Instruments Business operated by Asset Management Company of an Investment Corporation or an operator of Investment Management Business for Qualified Investors (Article 196(2) of the Act on Investment Trusts and Investment Corporations and Article 29-5(2) of the FIEA)

\*1 Type-I Financial Instruments Business that is conducted for professional investors and in which the securities handled are only certain securities, such as beneficiary certificates of foreign investment trusts and foreign investment securities.



Note: If you are eligible, please fill out the application form. You will be contacted by Tricolor Japan after submitting the application form. At the end of the process, JFSA will determine whether you are eligible for this program or not.

# Private Equity Market Overview

**Hideo Nagura**

Partner, Corporate Finance  
PwC Advisory LLC

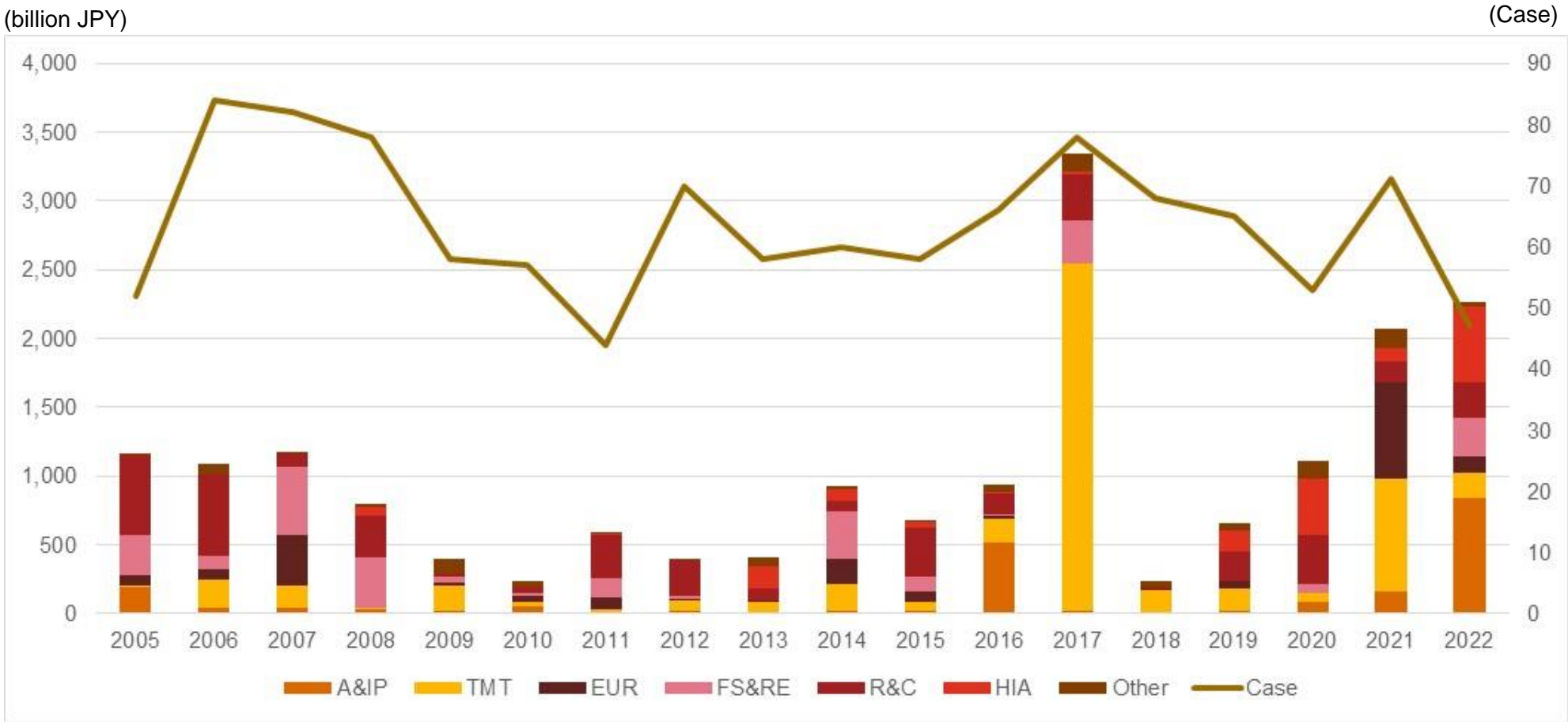


1

# Japan Private Equity market



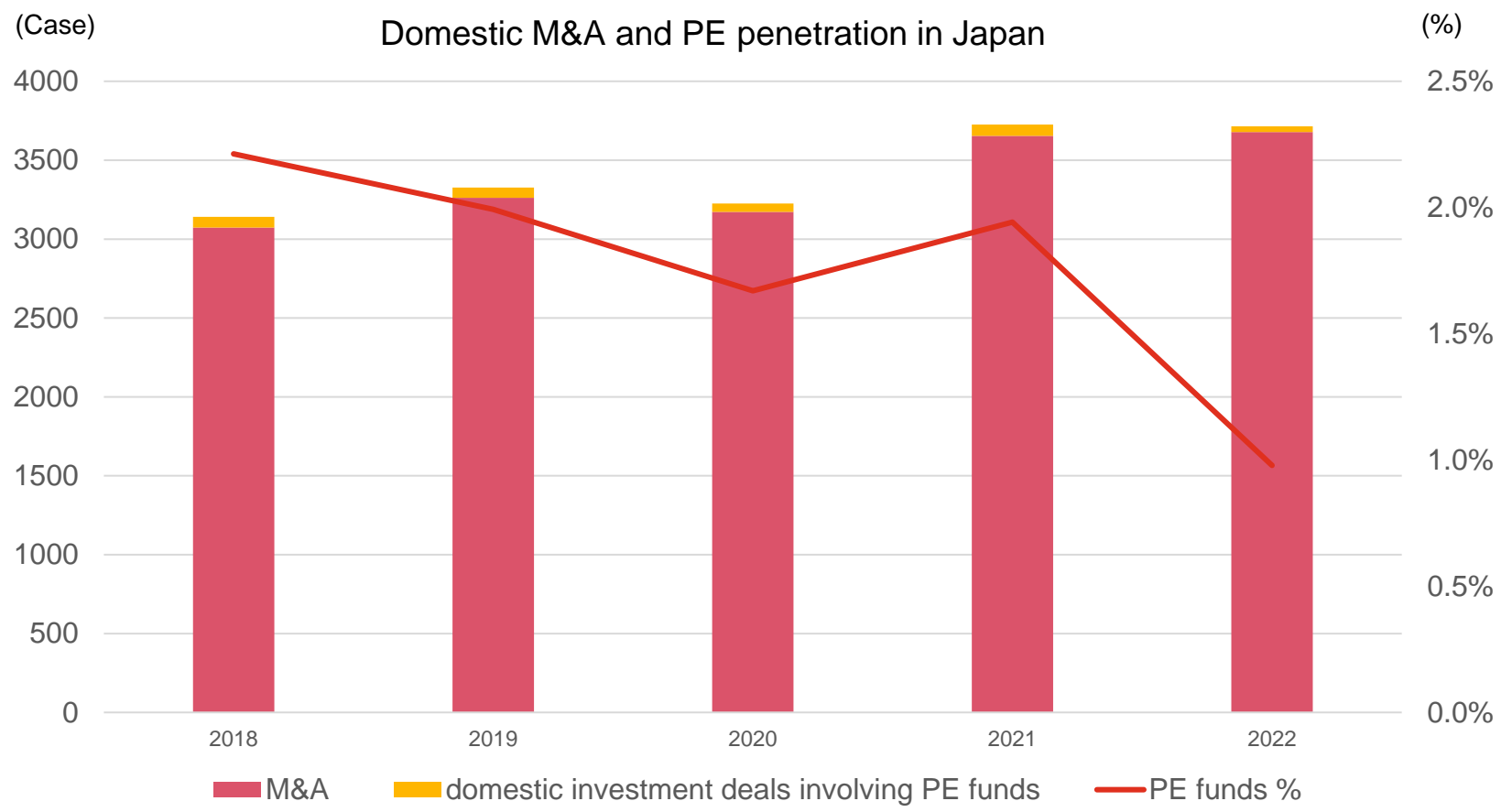
# PE Deal Activity in Japan



Source : Created by PwC from database provided by Dealogic (including additional acquisitions)

Note : The amount of information disclosed in relation to investment amounts is limited. The figure above does not include investments of undisclosed amount.

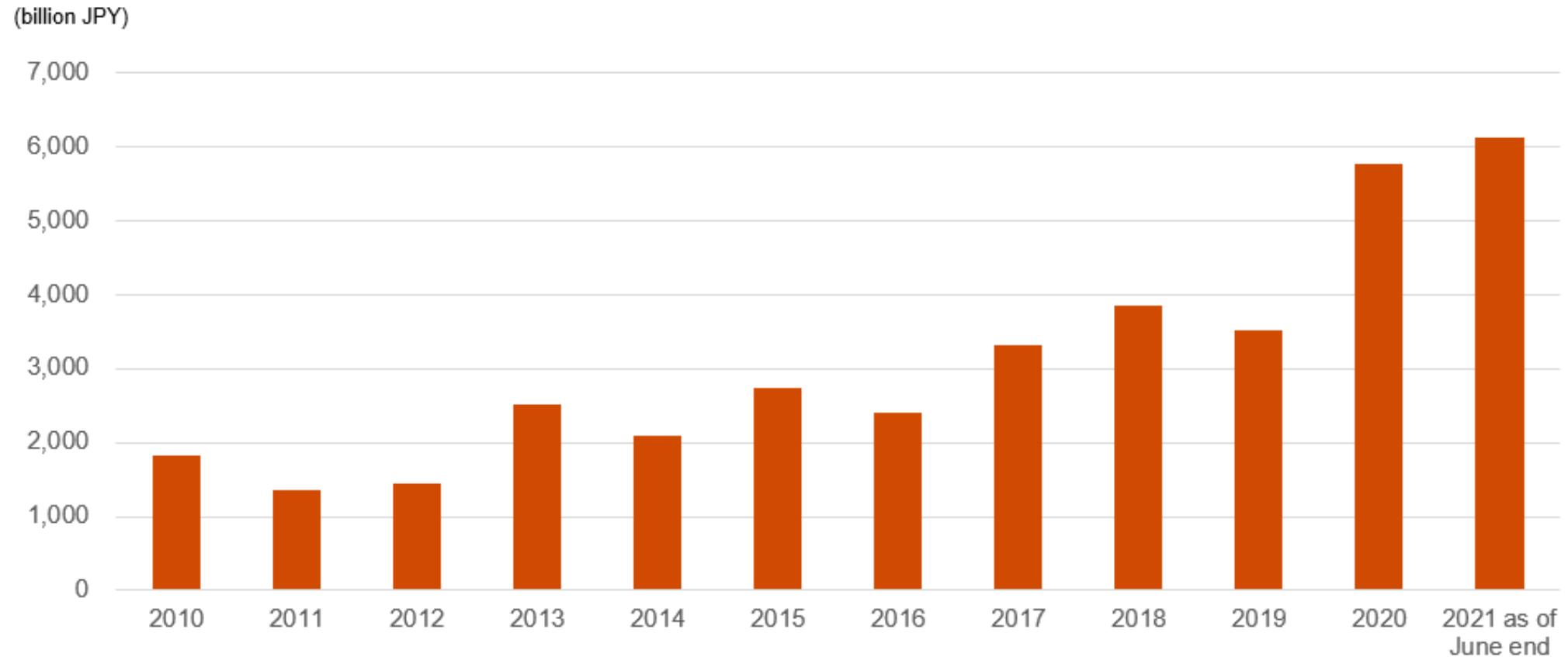
# The number of M&As in Japan is on the rise, but the proportion of PE investment is still small



Note: The above M&A is the sum of IN-IN and OUT-IN in Japan  
Source: Created by PwC with reference to the RECOF M&A DATABASE and Dealogic database

# Trends in dry powder with an interest in Japan

Partly due to the impact of global excess liquidity, funding for private equity funds with an interest in Japan reached a record high in the second half of 2021

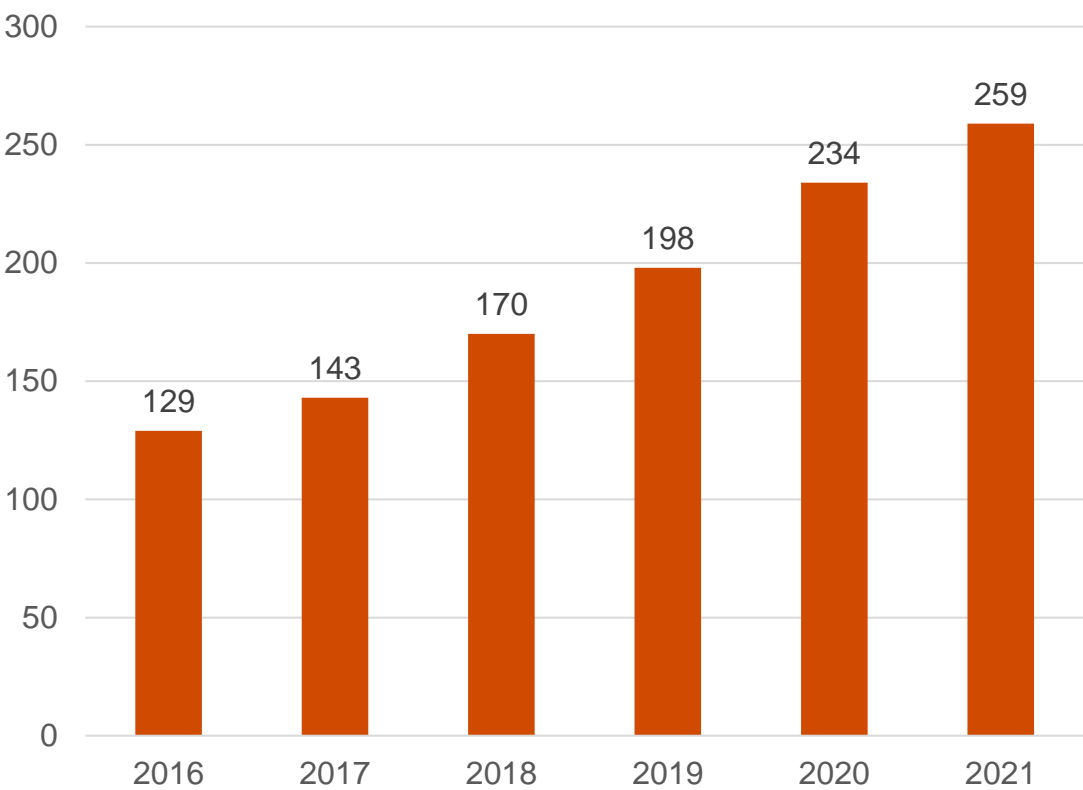
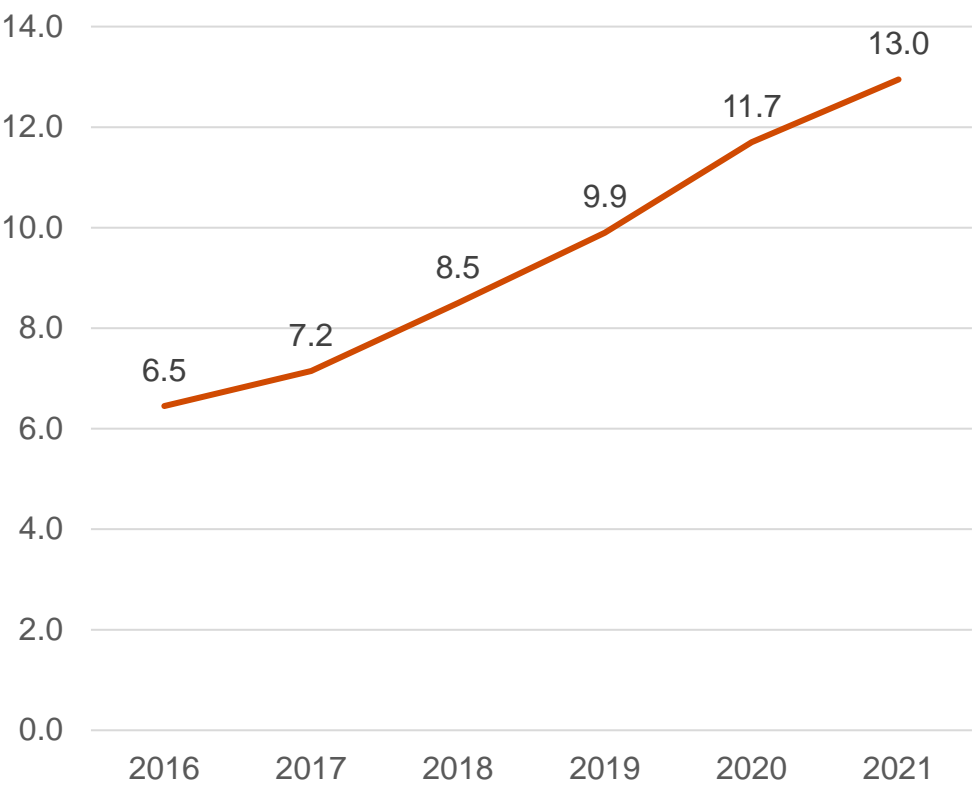


Source : Created by PwC based on the data from Preqin

# Number of Portfolio companies owned by major domestic PE funds and average per PE

The significant market expansion has resulted in the increase of portfolio companies per GP.

Number of companies invested in by major PE funds in Japan (average per PE fund)      Number of companies invested in by major PE funds in Japan (Total)

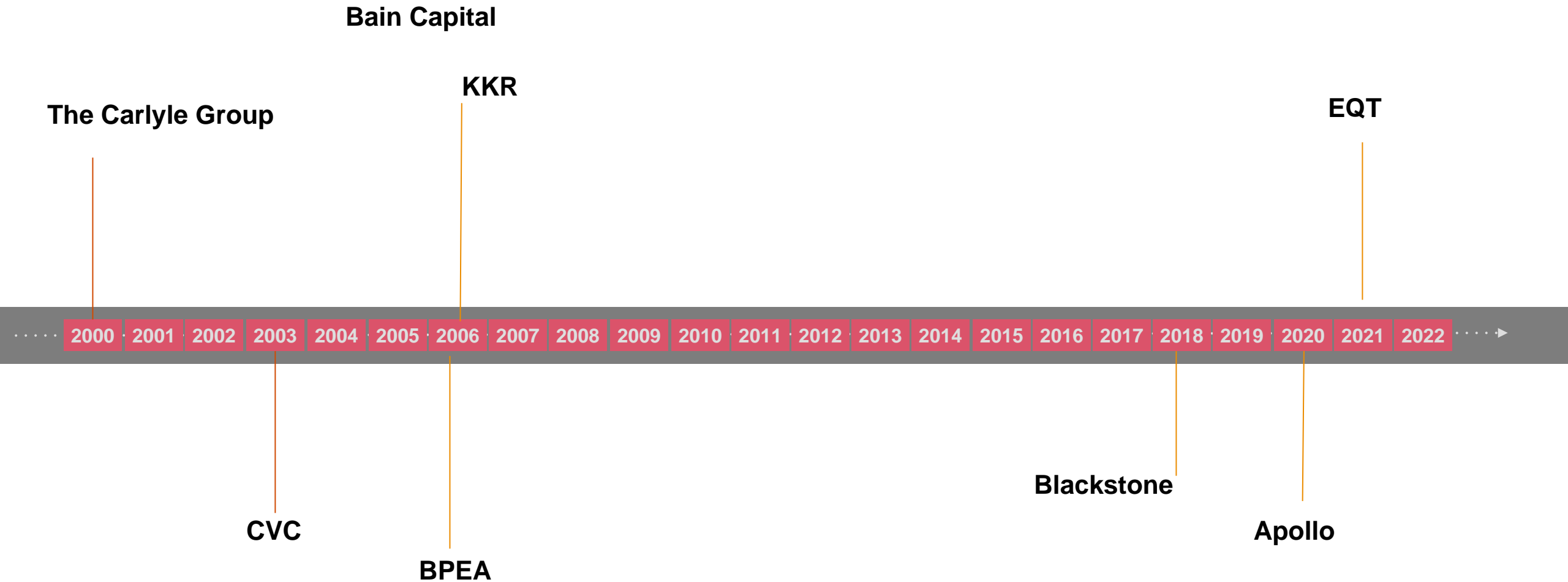


Source : Created by PwC based on Quzilla Capital's 'Industry Landscape Map of Domestic PE Funds (2022)' and company websites of the larger funds.  
The survey covers a total of 20 companies: Carlyle Group, Polaris Capital Group, Integral, Japan Industrial Solutions (JIS), Japan Industrial Partners (JIP), Nomura Capital Partners, Marunouchi Capital, Advantage Partners, T Capital Partners, JAFCO, Unison Capital, Longreach Group, Nippon Sangyo Suishin Kiko (NSSK), Aspirant Group, CLSA Capital Partners Japan, Japan Growth Investments Alliance, Endeavour United, J-STAR, iSigma Capital, and Ant Capital.



# Global PE fund entry to the Japan market

Major global PEs are continuing to enter to the Japanese market.  
3 major global funds have established their presence in the past 4 years.



# 2

Deal drivers

# Deal drivers that encourage PE investment



# Current situation on Deals drivers

- Corporate curve-outs continue to increase, as large Japanese corporates strategically focus on their core businesses and divest non-core businesses.
- Succession is a major issue for family owned Japanese companies with aging CEOs. Private equity has become a effective solution for founder succession.
- Increasing shareholder activism/engagement has disincentivized Japanese companies to remain publicly traded. Private Equity firms have acted as the friendly white knights to privatize targets who have been pressured by activist/engagement funds. Many activists have played a catalyst role for Japanese conglomerates to divest subsidiaries.

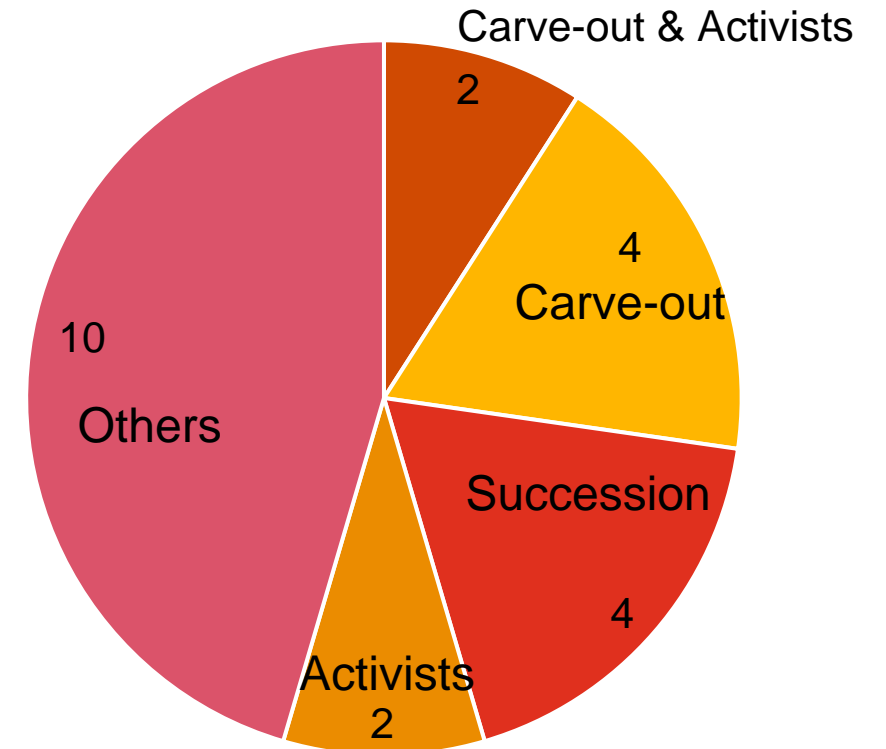


# Recent Major PE Buyouts in 2022

Target company industry	Amount (million yen)	Carve-out	Succession	Activist
Transportation	779,184	✓	-	-
Healthcare	427,674	✓	-	✓
Retail	250,000	✓	-	✓
Real Estate/Property	226,863	✓	-	-
Textile	120,000	-	-	-
Healthcare	100,000	-	-	-
Leisure & Recreation	66,660	✓	-	-
Computers & Electronics	61,411	-	✓	-
Machinery	60,888	-	-	-
Real Estate/Property	53,320	-	-	-

All of the large transactions are executed by the PE's with local presence. No successful examples of offshore buyouts.

Breakdown of 2022 PE investments  
(top 20 with the largest amounts) by Deal driver



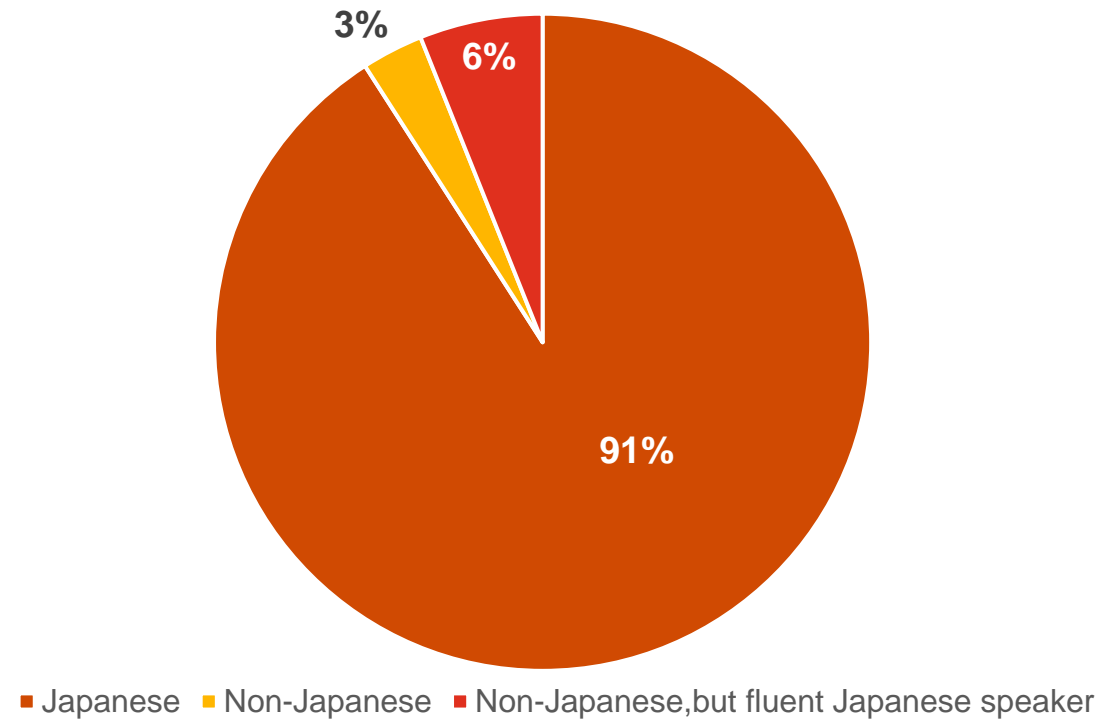
Sources: Created by PwC with reference to dialogic data

Note: The amount of information disclosed in relation to investment amounts is limited.

# High barrier to entry into Japanese market

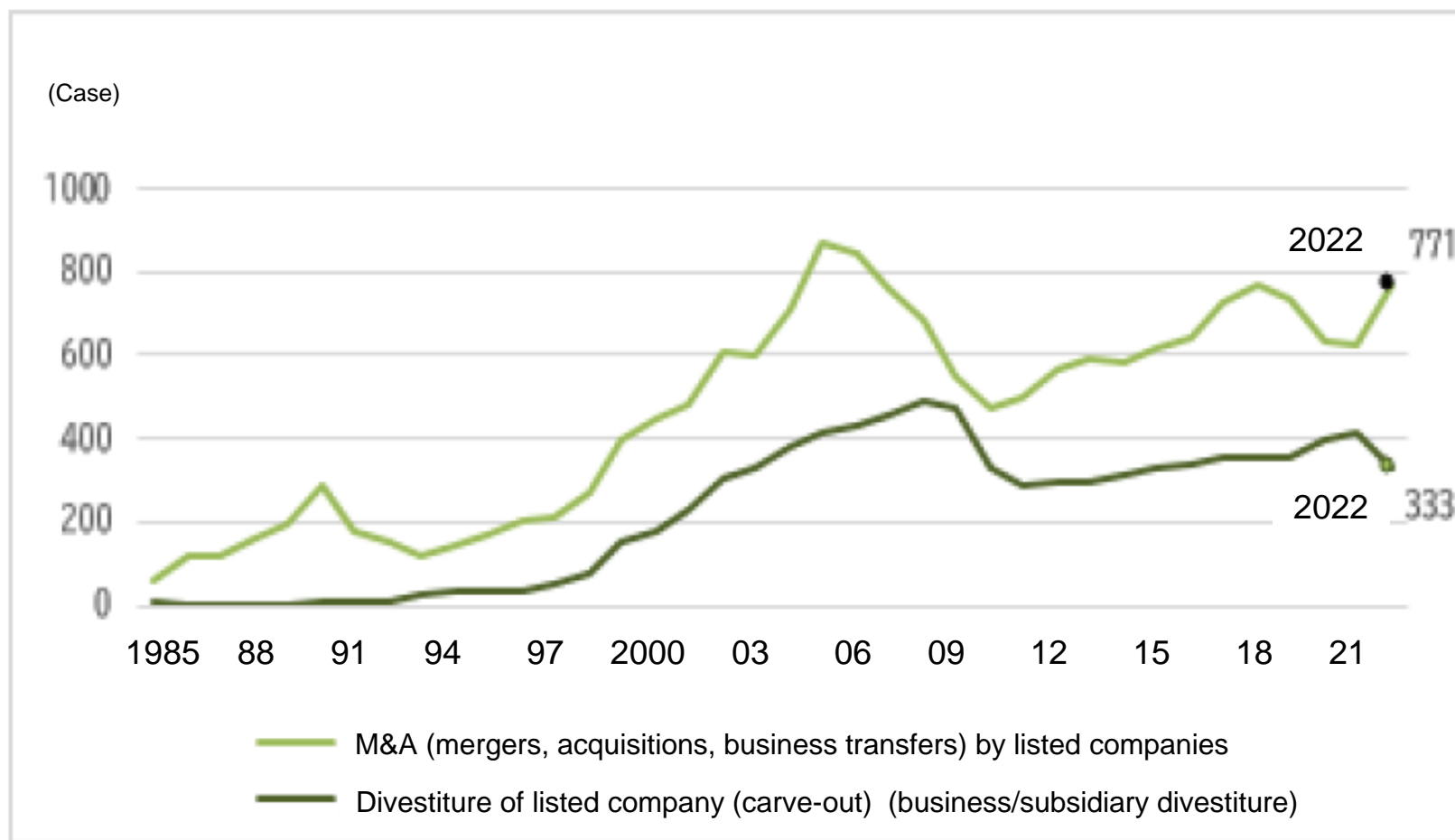
- In 2022, top 20 transactions has been invested by the PEs with local presence
- Local knowledge and teams are critical success factors. In order for PE funds entering the Japanese market to succeed in the Japanese market, it is necessary to build a solid team in Japan.
- More than 90% of CEO/President of PE funds are Japanese, Non-Japanese CEO/President is less than 10%.

Percentage of Japanese and non-Japanese among 27 Japanese PE funds



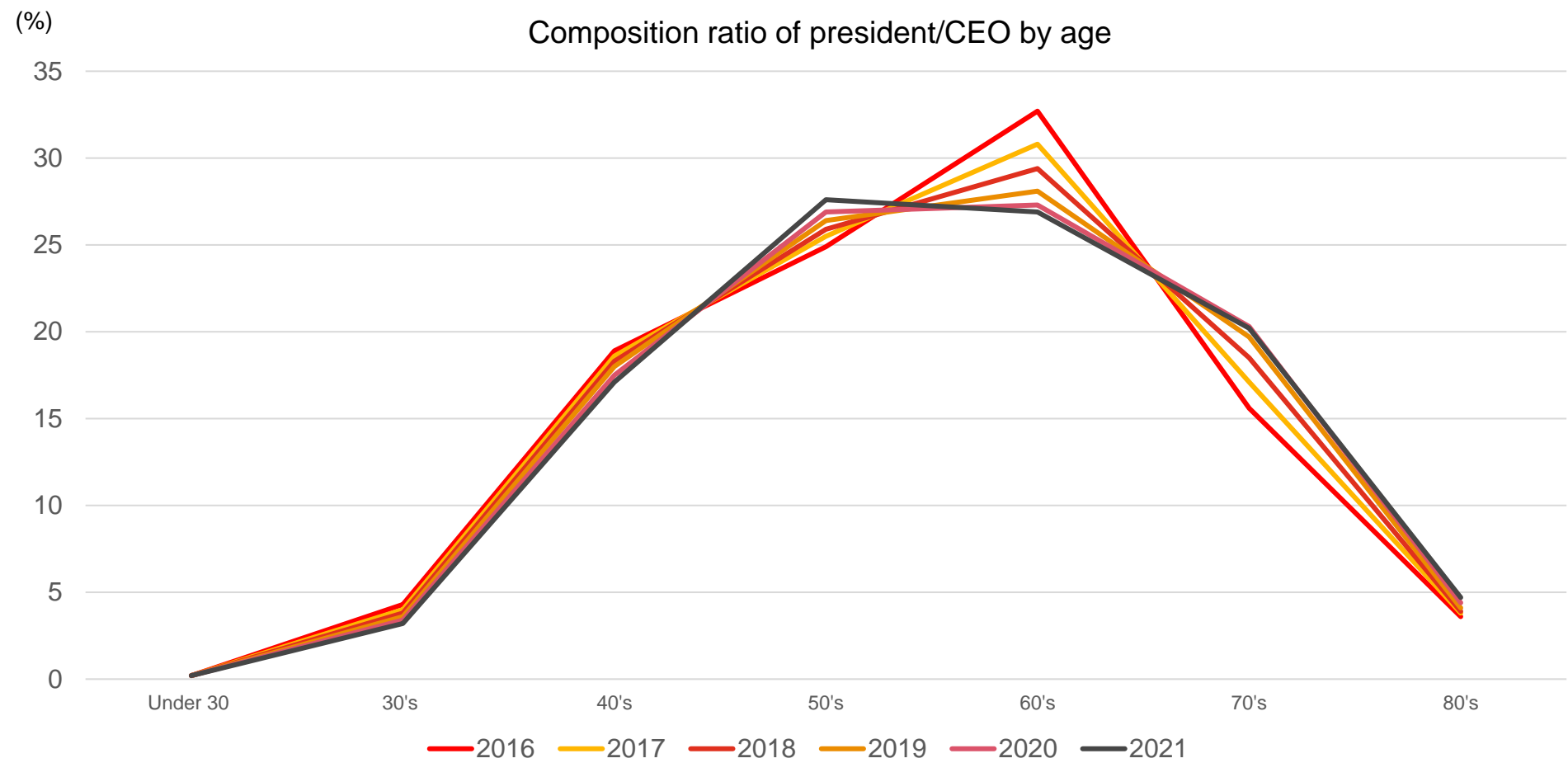
Source: Created by PwC with reference to top 20 PE funds mentioned on Quzilla Capital's 'Industry Landscape Map of Domestic PE Funds (2022)' and 7 additional PE funds which entered into Japanese market since 2000

# Corporate Carve-out :Business restructuring of listed companies



Source: MARR Online, February 2023 issue No. 340(2023/01/05) "Business Restructuring Trends of Listed Companies" "Buy" recovers to pre-COVID-19 level, "Sell" decreases

# Succession: Steadily aging of president/CEO



Source: Teikoku Data Bank, Nationwide “President Age” Analysis Survey (2021)

# Activist funds entering Japan are increasing year by year



Source: IR Japan



# Number of shareholder proposals submitted by activists is also increasing



Source: IR Japan

# Thank you

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# Key Tax Highlights for Private Equity Funds

**Stuart Porter / Satoshi Matsunaga**

Partner, Financial Services

PwC Tax Japan



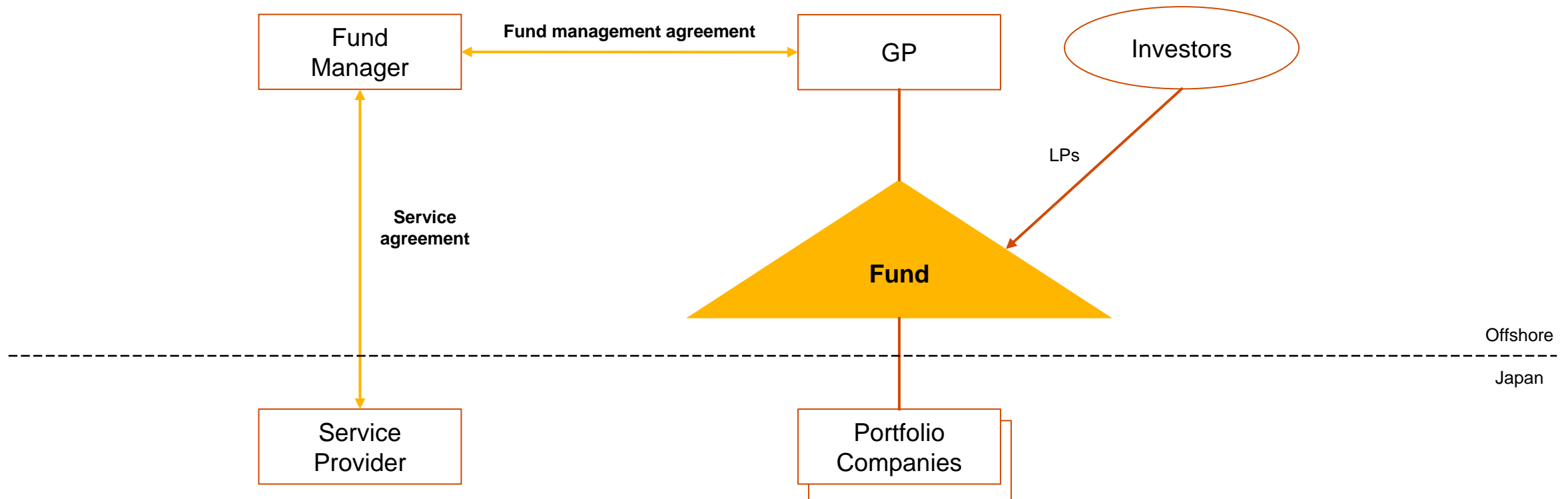
# Agenda

- |    |                  |   |
|----|------------------|---|
| 1. | Fund Structuring | 3 |
| 2. | Doing the Deal   | 7 |

# Private Equity: Fund Structuring

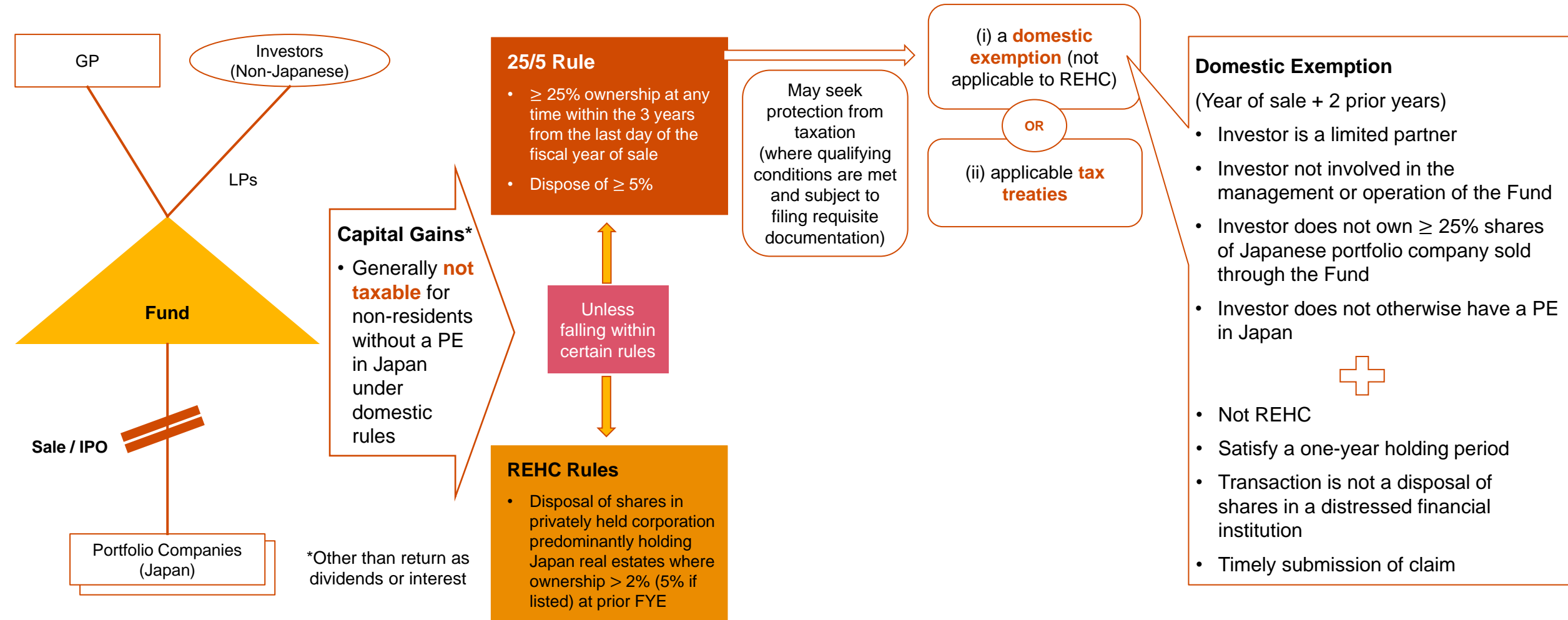
# Typical private equity fund structure

- Foreign investors investing into Japanese companies

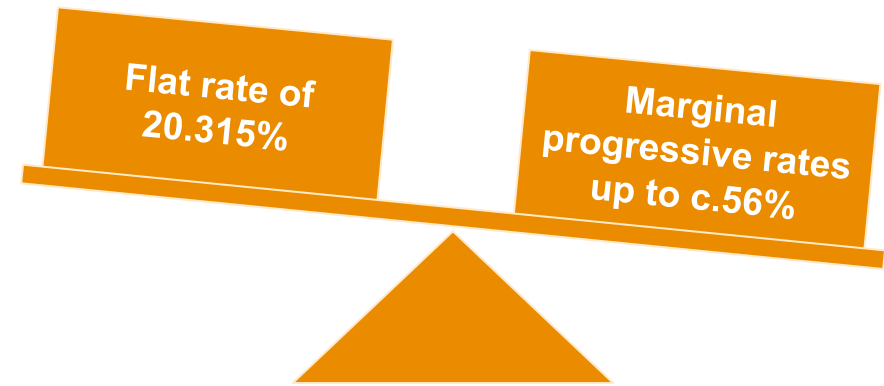
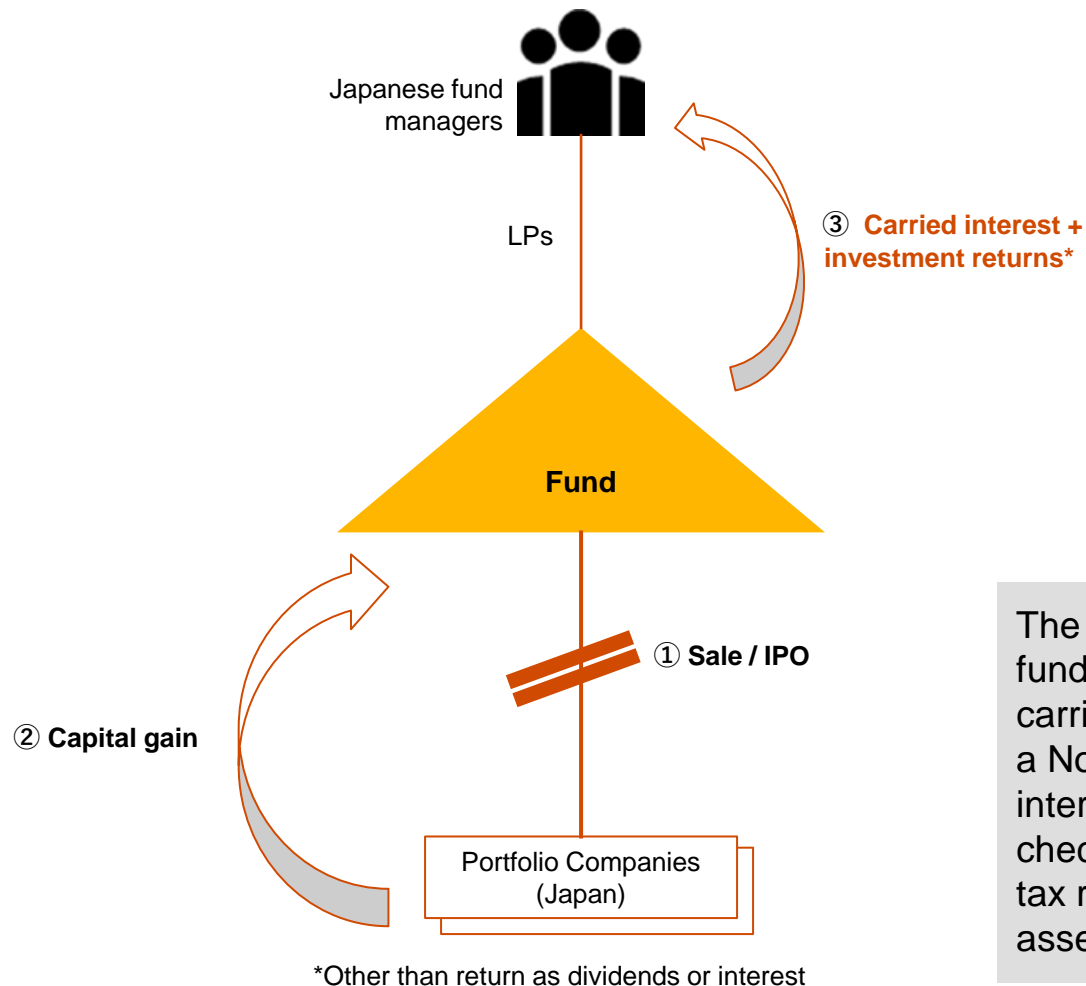




# Japanese tax on capital gains for foreign investors



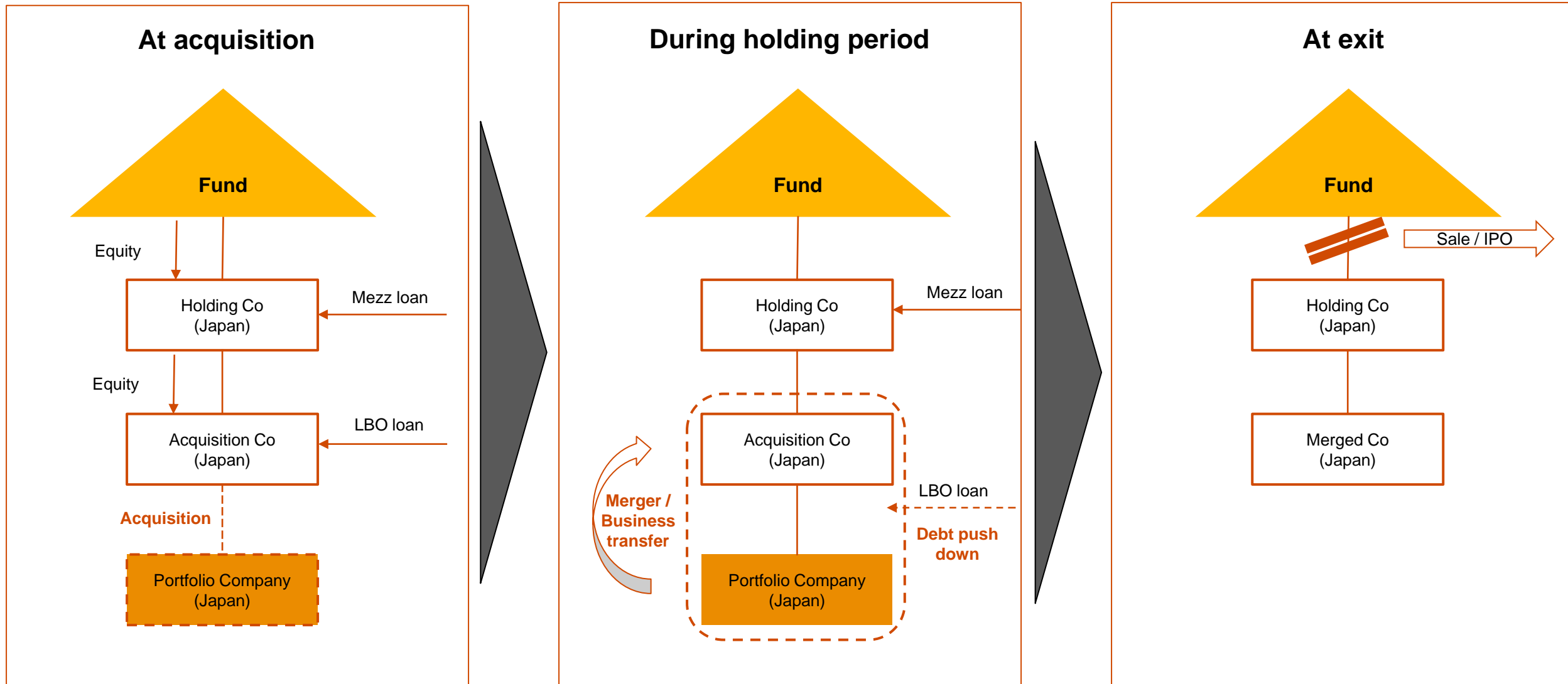
# Taxation of carried interest for Japanese deal team members



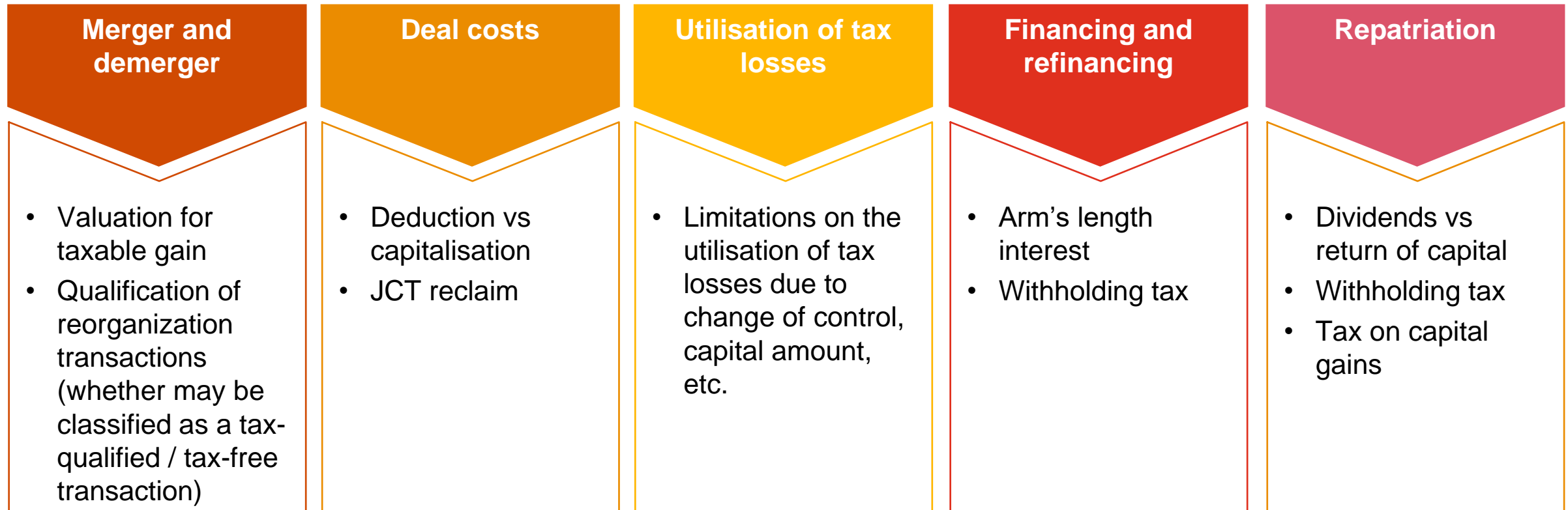
The 2021 tax reforms clarified the taxation of carried interest earned by fund managers who are individuals, to the extent the distribution ratio of carried interest is reasonably determined. Subsequently, the FSA released a Notice providing some guidelines to explain how the treatment of carried interest as capital gains may apply in certain circumstances, together with check and calculation sheets as recommended attachments to individual tax returns to support the tax filing basis where capital gains taxation is asserted from investment returns of carried interest.

# Private Equity: Doing the Deal

# Typical downstream structure for Japanese investments



# Key tax considerations for Japanese deals



# Thank you

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# Regulations Related to Private Equity Business

**Keiko Shimizu**

Partner

Nagashima Ohno & Tsunematsu

**NAGASHIMA OHNO & TSUNEMATSU**



# Overview of Regulations related to Private Equity Business in Japan

## Financial Instruments and Exchange Act (the “FIEA”)

Regulates various matters relating to offering, trading, investing and other dealings of securities and other financial instruments

## Examples of activities that require license (registration) as Financial Instruments Business Operator (“FIBO”)

- Investment Management
- Investment Advisory
- Fund raising

## License (registration) required if:

- regulated activities are conducted in Japan; and/or
- client of regulated activities is in Japan.

\* Additional license/registration may be required for certain other activities such as lending money, investment management in commodities derivatives, and real estate transactions.

# License / Registration Requirements ~ Investment Management Business

- Necessity of Investment Manager Registration

- (1) Is investment management conducted in Japan?
- (2) Is there any client/investor in Japan?
- (3) What is the role of the Japan office, a general partner of the fund or investment manager engaged by the general partner?

Investment manager registration may be required if response to either (1) or (2) above is “yes”.

\*For general partner, investment manager registration is only required if 50% or more of the fund assets are to be managed in securities and derivatives.

**Exemption available to general partner:**

SPBQII filing (a/k/a Article 63 notification, Form 20 filing)

De minimis exemption

*\*Note that the above exemptions are only available to a general partner*

*\*There is another limited exemption available for cases where the only Japanese clients are investment managers registered under the FIEA and/or trust banks.*

# License / Registration Requirements ~ Sourcing Investments

- Sourcing Investments

What is the role of the Japan office?

Would it be providing “Investment advice” or not?

Investment sourcing activities may fall under “investment advisory business”

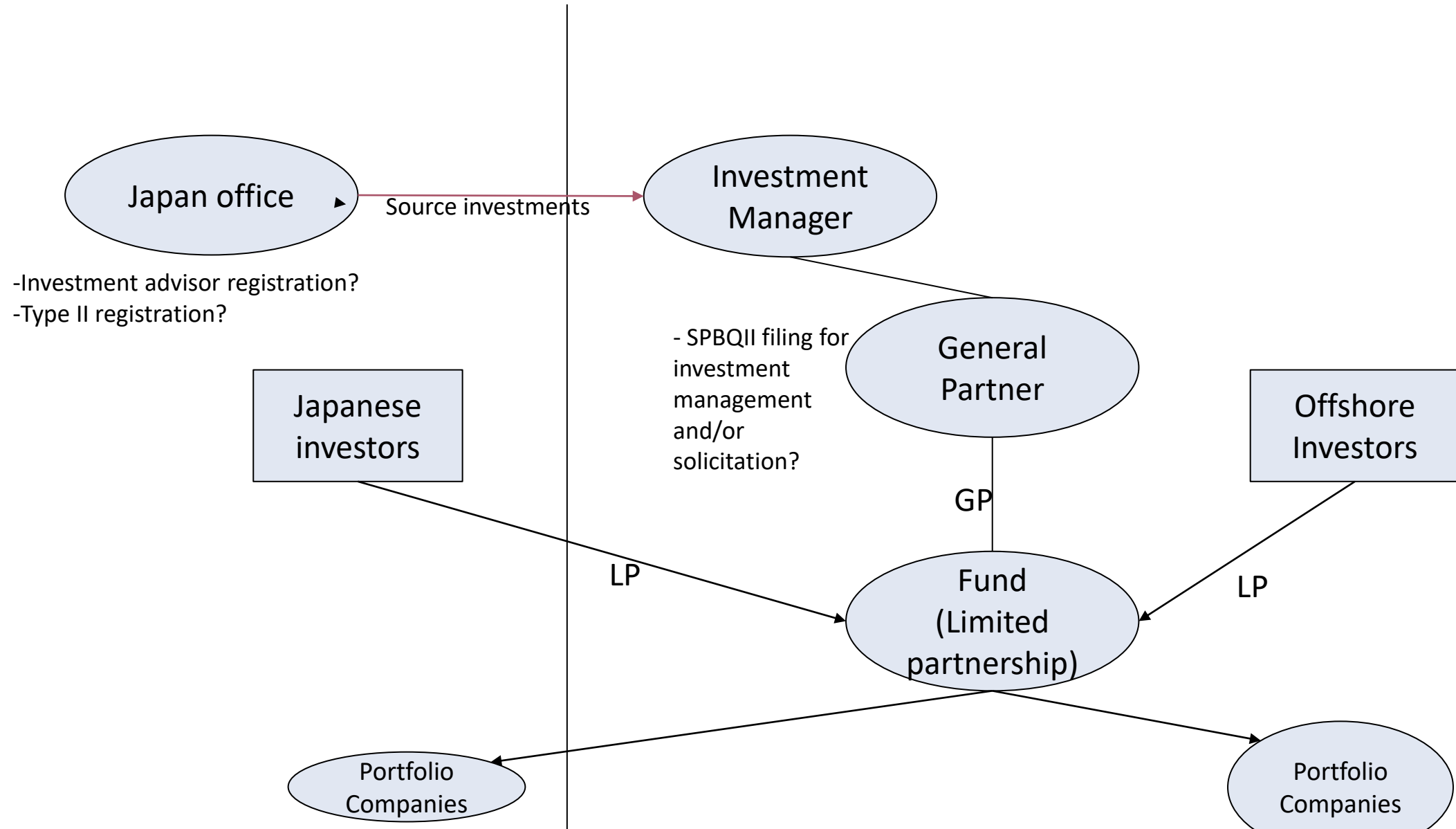
“Investment advisory business”

Advising on any of the following for fee:

- (i) value of securities
- (ii) consideration of securities related options
- (iii) movement of securities indicators.

\*Note that no particular exemption is available for the activity falls under the definition of “investment advisory business” other than *an exemption available for cases where the only Japanese clients are investment managers registered under the FIEA and/or trust banks.*

# License / Registration Requirements ~ Sourcing Investments Cont'd



# License / Registration Requirements ~ Fund Raising

- Fund Raising

If fund raising activity is conducted “in Japan”, Type II FIBO registration\* is required unless any exemption applies.

\*Type II registration is required if a fund offered in Japan is in the form of partnership.

If a fund to be offered in Japan is in other forms, different licensing requirements would apply.

For example, Type II registration is required if you have

- meetings in Japan with investors
- web/telephone meetings with investor in Japan

\*Type II FIBO registration may be required for soliciting Japanese resident investors in a meeting to be held outside of Japan if such meeting is intentionally held outside of Japan to avoid application of the FIEA.

Exemption:

SPBQII filing (a/k/a Article 63 notification, Form 20 filing)

Foreign securities firm exemption (only available in limited situations)

Full delegation



# Japan Office Options

In considering the form of Japan office, analysis/consideration is often tax driven.

Some points to keep in mind from legal/regulatory perspective:

- Branch option
  - Branch is permissible for FIBO registration for investment manager, investment advisor and/or Type II.
  - A foreign entity must not be an entity that is formed for the sole purpose of engaging in business in Japan.
  - At least one “representative in Japan” must be a resident of Japan.
  - If applying for registration as investment manager, a foreign entity opening Japan branch must be an entity that is considered equivalent to “KK with Board of Directors” under the Companies Act of Japan.
- Japanese company (KK or GK)
  - Both KK or GK is permissible for investment advisor and/or Type II registration.
  - For investment manager registration, the company must be “KK with Board of Directors” under the Companies Act of Japan.
- Representative office
  - If any person that engages in investment management or investment advisory business in offshore jurisdiction opens representative office for the purpose of gathering information regarding securities and to conduct certain other activities, filing under Article 62 of the FIEA is required.

See p.18 of <https://www.fsa.go.jp/en/policy/marketentry/guidebook/E01.pdf>

# FIBO Registration (1)

- Investment manager registration, investment advisor registration and Type II registration are all registration as Financial Instruments Business Operator (“FIBO”)
- The FSA has prepared Guidebook for registration.  
<https://www.fsa.go.jp/en/policy/marketentry/guidebook/index.html>  
<https://www.fsa.go.jp/en/policy/marketentry/guidebook/E01.pdf>
  - Overview of registration requirements can be found from p.61- of the Guidebook.
- List of companies registered as FIBO is available on FSA’s website (only in Japanese).  
<https://www.fsa.go.jp/menkyo/menkyoj/kinyushohin.pdf>

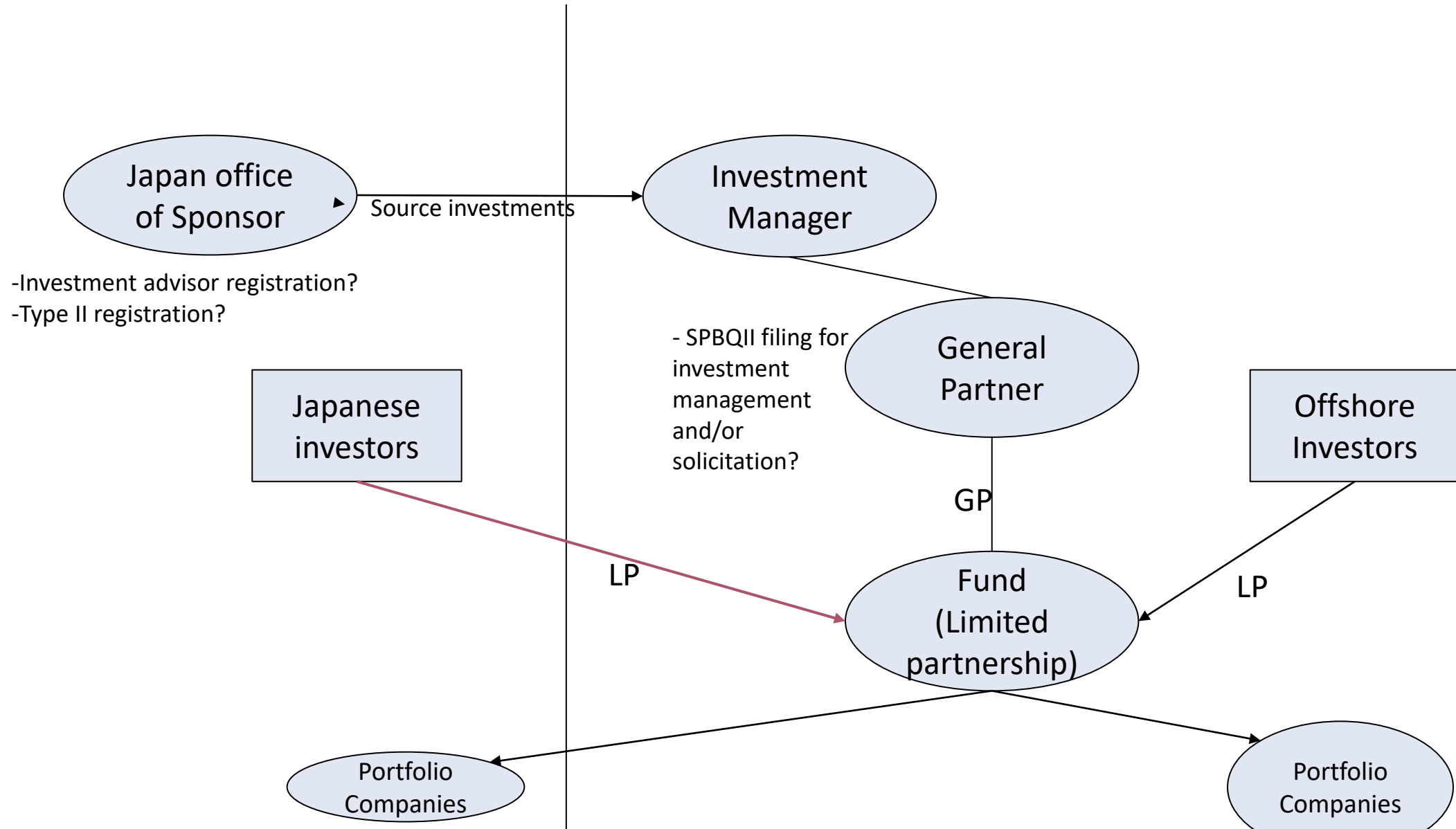
# FIBO Registration (2)

Examples of some of the registration requirements

(partly taken from <https://www.fsa.go.jp/en/policy/marketentry/guidebook/E01.pdf>)

	Investment Management Business	Investment Advisory	Type II
Capital/Net Asset	JPY 50 million/ JPY 50 million	None (but JPY 5 million security deposit required)	JPY 10 million capital
Appropriate personnel structure	<ul style="list-style-type: none"> <li>- Top managers must be sufficiently qualified to conduct Financial Instruments Business (“FIB”) in a fair and appropriate manner, considering their background and capabilities</li> <li>- Managing directors must understand the viewpoints regarding governance indicated in the FIEA and various other laws and regulations, and have sufficient knowledge and experience to conduct governance, in addition to sufficient knowledge and experience regarding compliance and risk management to conduct FIB in a fair and appropriate manner.</li> </ul>		
	Portfolio manager must have sufficient knowledge and experience regarding investment.	Persons providing investment advice must have sufficient knowledge and experience regarding the values of securities and financial instruments.	
	Compliance and internal audit independent from investment management division	Persons with sufficient knowledge and experience with compliance and internal audit must be secured	Compliance and internal audit independent from the sales division

# Specially Permitted Business for QIIs (1)



# Specially Permitted Business for QIIs (2)

“Specially Permitted Business for QIIs” (a/k/a Article 63 exemption or Form 20 filing)

Exemption from (i) Investment Manager and (ii) Type II registration requirements available to the general partners of funds that are in the form of partnerships.

Outline of requirements:

- (a) At least one (1) QII as investor; and
- (b) 49 or less non-QII who is a “qualified investor”; and
- (c) Filing Article 63 notification (Form 20) prior to closing with investor(s).

\* “QII” is an abbreviation for “Qualified Institutional Investor”.

List of QIIs are available on the FSA’s website (the list only available in Japanese)

<https://www.fsa.go.jp/common/law/tekikaku/index.html>

- Bank, insurance company, trust bank, and FIBO engaging in Type I business and/or investment management business are QII
- A person with securities balance of JPY 1 billion is eligible to become a QII by filing a notification (additional requirements apply for individuals)

# Specially Permitted Business for QIIs (3)

“Specially Permitted Business for QIIs” (a/k/a Article 63 exemption or Form 20 filing)

The Form of filing (Form 20) is available on the FSA website and may be prepared and submitted in English.

<https://www.fsa.go.jp/en/news/2007/20071119.html>

Timing of filing: *Prior to closing with Japanese investor(s).*

- \* Note that name of QII investor(s) must be included.
- \* For Form 20 filing of offshore GPs, the KLFB reviews the draft filing documents prior to submission.

Required documents:

There are various attachments required in addition to Form 20, such as personal resume and other documents of the directors and officers of the GP.

The required documents differ depending on the fund and GP structure and should be carefully reviewed.



# Specially Permitted Business for QIIs (4)

<Form 20>

- Filing of the General Partner
- Names of funds to be offered to investors in Japan will be listed in the Form 20
- Same form and filing for both solicitation (fund raising) and investment management

## **Solicitation (fund raising)**

Form 20 filing is only required if the General Partner will solicit investors in Japan

\* If solicitation activities are fully delegated to Type II registered placement agent, and the GP does not engage in any solicitation activities, no need to file Form 20.

## **Investment management**

Form 20 filing is required even if the General Partner delegates management of the fund's assets to investment manager.

### **Exemption available for investment management:**

De minimis exemption

- (i) The number of investors resident in Japan is less than 10, all of which are QIIs or notifier of SPBQII;
- (ii) Direct contribution by such investors resident in Japan is less than 1/3 of the total contribution.

\*Additional requirements apply if investor is a FoF.

# Specially Permitted Business for QIIs (5)

## Ongoing compliance requirements

The list of requirements available in “V. Regulations for Notices of SPBQII, (b) Conduct Control” in “Guidelines for Registration and Notification Requirements” on the FSA’s website.

<https://www.fsa.go.jp/en/news/2007/20071119.html>

\*Amendment notification should be filed if any matters included in Form 20 changes.

## Public Disclosure requirements

Public disclosure of the following is required:

- Form 20-2 (which is an excerpt of Form 20)
- Form 21-3 (which is an excerpt of annual business report)

\*Annual business report is required to be submitted within 3 months from the fiscal year end of the general partner. Financial statements of the general partner must be attached to the annual business report and Form 21-3).

## Filing of Notification of Abolition of SPBQII

# Specially Permitted Business for Foreign Investors

## “Specially Permitted Business for Foreign Investors”

Exemption from (i) Investment Manager and (ii) Type II registration requirements available to the general partners of funds that are in the form of partnerships.

Outline of requirements:

- (a) More than 50% of money invested is invested by non-residents;
- (b) All investors fall under “Foreign Investors, etc.”;
- (c) investment management is conducted at business office in Japan; and
- (d) Filing notification prior to closing with investor(s).

# Q&A Session



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# Thank you for attending

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