

International Financial Center Initiatives

2022. 4

Japan as an International Financial Center

Japan's strengths / potential

- Political stability, good public security, favorable living environment
- Large domestic economy
- Sizable household financial assets

Japanese Government's Initiatives

- Enhance convenience through easing financial regulatory measures
- Implement a government-wide policy package from tax to visa and livelihood support

Japan aims to become an international financial center that attracts talents, corporates, and funds...



We will be a popular destination for business professionals, not just for tourists

Summary: International Financial Center Initiatives

A government-wide policy package

1) Tax	✓ Business-friendly reforms for corporate income, inheritance, and personal income tax purposes
2) Financial Regulation	✓ One-stop English administrative services for pre-application consultation, registration and supervision for newly entering overseas asset managers ✓ Introduction of simplified market entry procedures for overseas asset managers
3) Visa	✓ Exemption measure for newly entering asset managers as a temporary visitor to commence business without returning to their home country ✓ Relaxed employment requirements for domestic workers ✓ Increased convenience for working spouses for Highly-Skilled Professionals
4) Company Setup & Livelihood Support	✓ Free-of-charge one-stop company setup support ✓ Livelihood support for finding international schools, medical facilities and housing
5) External Communication	✓ Proactive information dissemination through a dedicated website, an official LinkedIn Page and webinars/roundtable discussions

1) Tax

	Before	Response
Corporate income tax For Asset management firms	30% Performance-based compensation of directors Listed companies : deductible Private companies : not deductible	A private, non-family company including a 100% subsidiary of a listed company which mainly operates asset management business should be able to deduct its performance-based compensation with a number of conditions, including where the calculation methods are described in its business reports filed under the Financial Instruments and Exchange Act and disclosed publicly through the JFSA website. (2021 November 22nd) https://www.fsa.go.jp/en/financialcenter/businessreport.html
Inheritance tax For heirs of foreign residents in Japan	0~55% Living in Japan over 10 years: worldwide assets Living less than 10 years ...tax on only assets in Japan	Assets outside of Japan that a foreign national who entered Japan with a valid working visa holds should be exempt from Japanese inheritance tax regardless of their years of residence in Japan when the heir receives the assets as a non-resident. (2021 April 1st)
Personal income tax For fund managers	0~55% Carried interests - distribution allocated returns in excess of their capital contribution ratio → Unclear if it is a capital gain or not	When a profit distribution of a carried interest has an economic rationality, that profit should be taxed as a capital gains tax (20%). (2021 April 1st) https://www.fsa.go.jp/en/news/2021/20210401/01.pdf

2) Financial regulation [1]

[1] One-stop and all-in-English regulatory services

Before

- Foreign asset management companies must have discussions with different contact points in JFSA and Local Finance Bureaus
- High regulatory compliance cost due to the requirement to file application/registration in Japanese

Response

“Financial Market Entry Office” was launched in JFSA in January 2021

→ **One-stop English services** for pre-application consultation, registration procedures, and supervision

※ Financial administrative services in English through AI powered translation technology from April 2021

2) Financial regulation [2]

[2] Simplified market entry procedure

Before

In principle, even an asset management firm that serves overseas professional investors (institutional investors) is required to be registered with JFSA in order to conduct asset management business in Japan.

Moreover, registration procedures could take some time even for an asset management firm with a proven track record overseas

Response

Facilitate overseas asset managers' entry by introducing the following schemes:

- **Pre-registration entry scheme** (5 years) for those with authorization by regulatory bodies and a proven track record in specified foreign jurisdictions
- **Simplified entry scheme for GP managers** with overseas qualified clients

※ Effective on Nov. 22, 2021

3) Visa

Expansion of preferential immigration treatment in the point-based system

Highly-Skilled Professionals (“HSPs”)

- **A new bonus category (+10 points) is added for asset management businesses** for calculating the points to apply for the status of residence of “Highly-Skilled Professional”
- Preferential processing of entry and residence procedures for HSPs **(the processing period is expected to be around 10 days).**

Domestic workers

- HSPs in asset management businesses are allowed to:
 - Hire domestic workers **even if they do not meet the conditions such as having a child under the age of 13;**
 - Increase the maximum number of domestic workers they can hire from one to **two**, if the household annual income exceeds 30,000,000 yen or more.

A special measure for those with “Temporary Visitor”

- Foreigners who enter Japan as a “Temporary Visitor” for the purpose of preparing for company setup can change their status of residence directly to “Highly-Skilled Professional” or “Business Manager”, etc **without returning to their home country** before commencing business, subject to certain conditions*1

*1 Registration as an investment management business should be made while staying in Japan as a “Temporary Visitor”

Spouse

- Spouses of HSPs can **work full-time without obtaining working visas, subject to** certain conditions*2
- Preferential processing of entry and residence procedures for spouses of HSPs (the processing period: around 10 days)

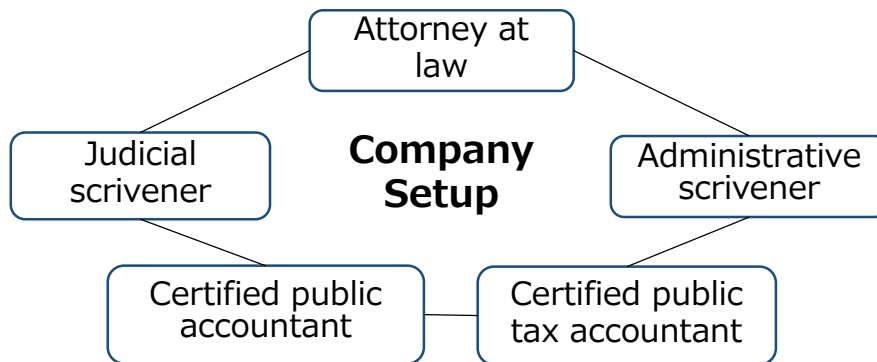
*2 Living with HSPs and engaging in activities that fall under some categories of activities such as those “Engineer / Specialist in Humanities / International Services”, while earning at least an equivalent amount of income to Japanese with similar jobs.

Note: Bullets starting with ○ are preferential treatments for asset managers

4) Company setup and livelihood support [1]

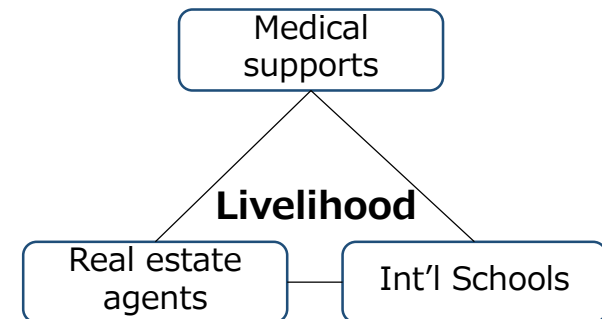
Corporate setup support

- Corporate setup in Japan
- Acquisition of Residence status
- Obtaining license and/or registration etc.



Livelihood support

- Medical supports
- Housing
- International Schools



Support by private companies

Introduce a one-stop English support program, free of charge (Financial Start-up Support Program, slide 10) to provide foreigners and overseas asset management businesses with corporate and business setup support (in cooperation with a private partner)

Support by the Government

Enhance "Financial Market Entry Office" (slide 6) to cover total relocation support including settling in and establishing a livelihood (in cooperation with local governments and Foreign Residents Support Center)

4) Company setup and livelihood support [2]

Financial Start-up Support Program

Objectives

- To provide free-of-charge one-stop English support for newly entering asset managers
- To accelerate reforms based on lessons learned from new entrants using this program

Eligibility

Newly entering overseas asset managers to Japan that engage in at least one of the following businesses under the FIEA:

- Investment management business
- Investment advisory and agency business
- Type-II business relevant to asset management business
- Type-I business that handles foreign securities for professional investors
- Business via notification (not registration):
 - Scheme for those with authorization by regulatory bodies and a proven track record in specified jurisdictions
 - Scheme for GP managers with overseas qualified clients



Note: right side with light blue letters are "initial set-up supports" with reimbursement of costs

※ Program is available until the earlier of 1) March 31, 2023 or 2) the budget is used up.

5) External communication

[1] A dedicate web page for International Financial Center Initiatives



<https://www.fsa.go.jp/internationalfinancialcenter/en/>

[2] Official LinkedIn Page



<https://www.linkedin.com/company/financial-services-agency-japan/>

[3] Financial Market Entry Office

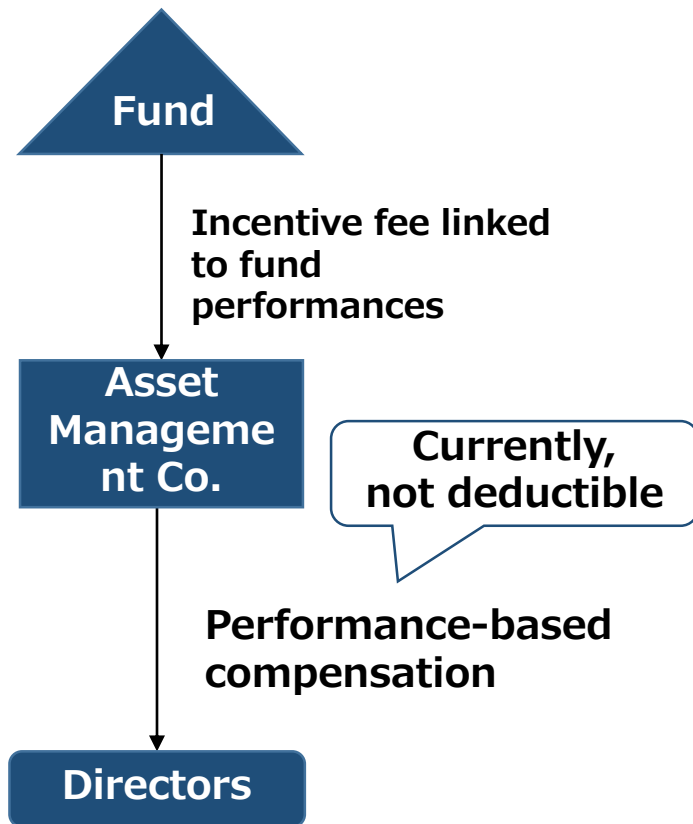
Contact info:

marketentry@fsa.go.jp

<https://www.fsa.go.jp/en/policy/marketentry/index.html>

Appendix

Deduction of performance-based compensation of directors can apply unlisted (non-family) companies^{*1} whose primary business^{*2} is investment management on the certain conditions^{*3}



*1 including family companies that are wholly owned by an unlisted (non-family) company

A "family company" means a company that has three or fewer shareholders who holds 50% or more shares of the total issued shares of the company (excluding shares it holds in itself) with whom an individual or a corporation has a special relationship.

*2 Primary business means that the revenue related to asset management business of the company is 75% or more of total revenue.



*3 The conditions includes:

1. The payment and the calculation method are stated in the asset management agreements between asset managers and investors, or the investors have no objection regarding them;
2. The calculation method is stated in the Annual Business Report and its explanatory documents under the Financial Instruments and Exchange Act, and the Annual Business Report is published on the JFSA's website; and
3. The compensation is objectively calculated based on the profits derived from profits of the funds.

Inheritance tax

Exempt overseas sites property of foreigners from gift/inheritance tax who have address in Japan for business purposes regardless of period of residence (where the donee/heir is temporary foreigners, etc.).

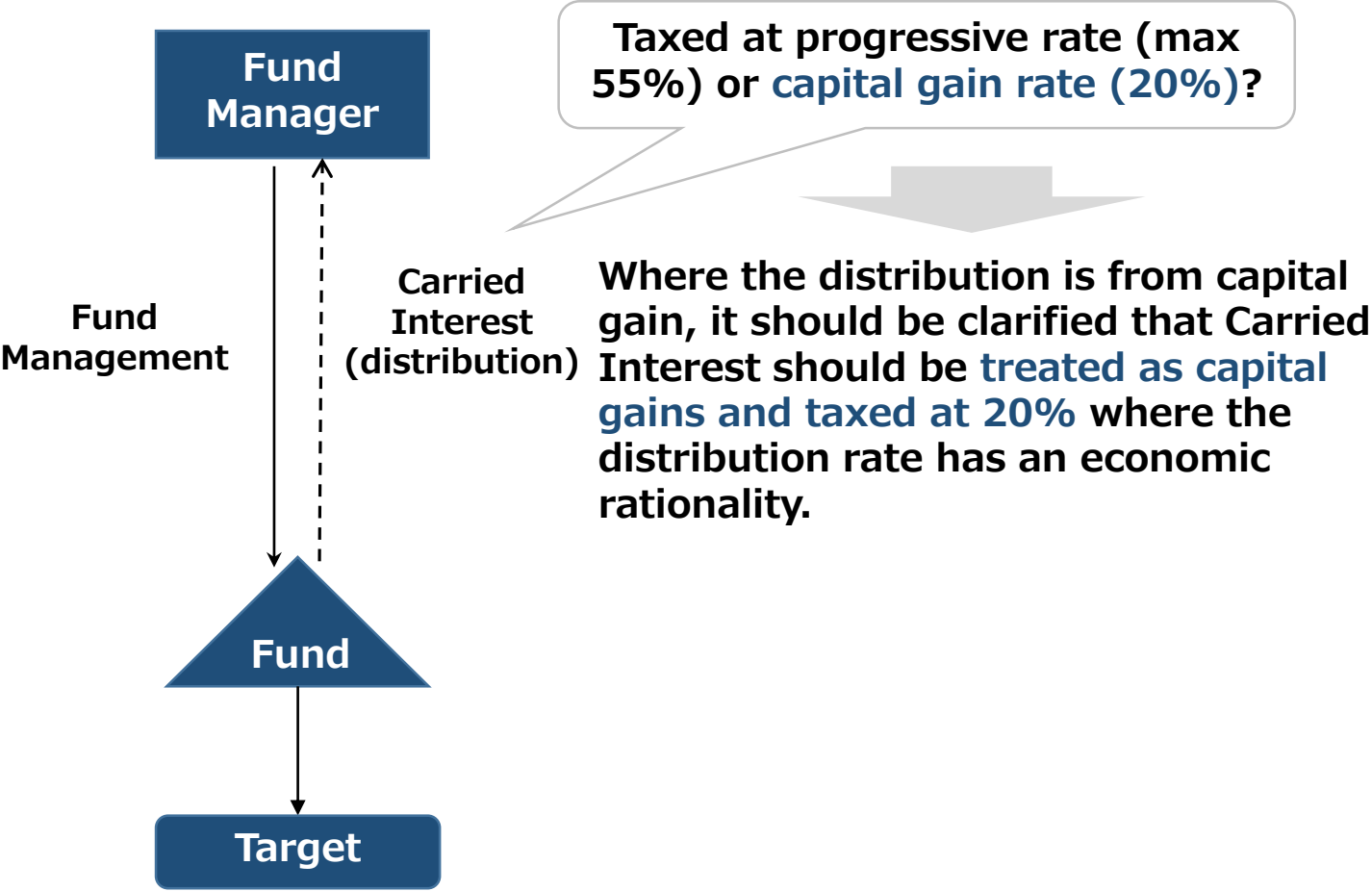
Donor/Decedent \ Donee/Heir		Address in Japan		No address in Japan		
			Temporary Foreigners*1	Japanese National		Non-Japanese National
				Had address in Japan within 10 years before death /gift	No address in Japan within 10 years before death /gift	
Address in Japan						
	(Current) Temporary Foreigners*1 (Proposal) Foreigners*2					
No address in Japan	Had address in Japan within 10 years before death /gift					
	Foreigners					
	No address in Japan within 10 years before death /gift					

 : tax on worldwide assets  : tax on Japan-situs assets

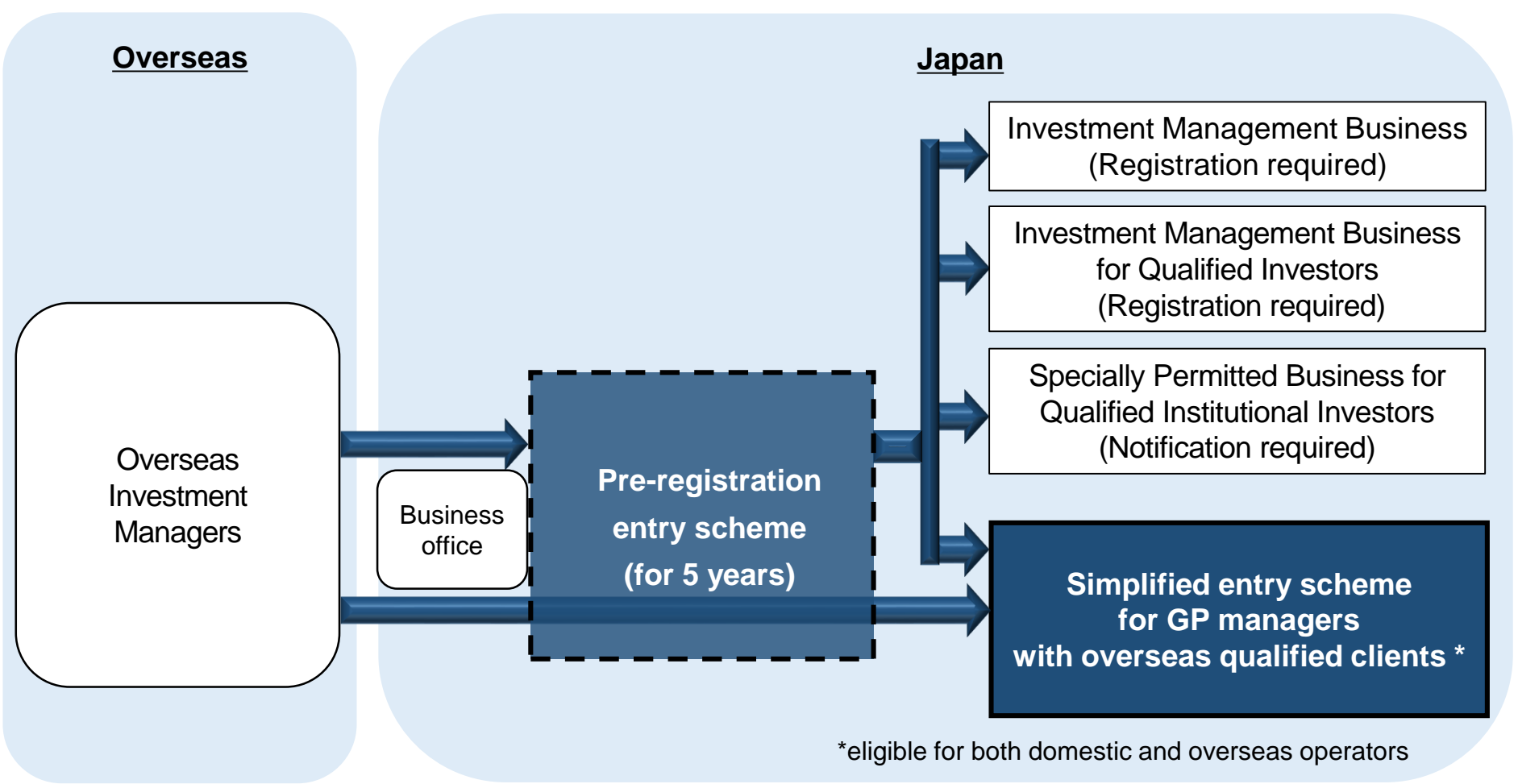
*1 Foreign nationals who hold a visa issued under Table 1 of the Immigration Control and Refugee Recognition Act, such as work visa, and have had an address in Japan for not more than 10 years out of the past 15 years looking back from the date of the death/gift

*2 Foreign nationals who hold the above visa (regardless of length of stay)

Clarify that carried interest (profits derived from capital gain in the fund) should be subject to capital gain (20% flat rate), not as a part of the Aggregate Taxation (progressive rate up to 55%), including where an economic rational is available in distribution



Legislative Amendments for International Financial Center



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