

Policy Plan for Promoting Japan as a Leading Asset Management Center

I. Basic ideas

- The Kishida administration promotes a “new form of capitalism” that transforms social challenges into engines of growth through public-private collaboration. An important piece of this concept is that cash and deposits, which account for more than half of Japan's household financial assets of 2,115 trillion yen (as of the end of June 2023), will go toward investment, and the benefits of increased corporate value will be returned to households, leading to further investment and consumption. It is important to realize a “virtuous cycle of growth and distribution” by creating a flow of funds that leads to economic growth, increasing household income from financial assets as well as income from labor.
- Against this backdrop, the investment chain has been strengthened through measures such as the “Doubling Asset-based Income Plan” (developed in November 2022) and corporate governance reforms. In particular,
 - The government has taken measures to support their steady asset building by households, such as major expansion of and permanent establishment of NISA (tax exemption program for retail investors)), promotion of customer-oriented advice, and enhancement of financial and economic education;
 - The government has encouraged, including through monitoring, financial product sales companies to develop a framework for structuring, selling, and managing financial products that serve the best interests of customers. In addition, in order to further establish and level up these initiatives, an Act was passed by the National Diet to make it an obligation for financial service providers to carry out their operations honestly and fairly, taking into account the best interest of their customers. This Act brought corporate pensions into the scope of this obligation, as they play an important role in asset building by households.
 - Furthermore, the government has developed and revised the Stewardship Code and Corporate Governance Code and, recently, put together the “Action Program for Accelerating Corporate Governance Reform,” aiming toward sustainable growth and increased corporate value of Japanese companies over the medium- to long-term. Efforts have also been made to improve the functioning of Japan’s financial and capital markets.
- The government is determined to build on and continue these efforts. In this regard, a reform of Japan’s asset management sector and asset ownership is the remaining piece to be embedded in the investment chain.

- Asset owners are expected to entrust the management of the assets to asset management companies with high capabilities, from the standpoints of taking into account the best interest of their beneficiaries and conducting business honestly and fairly.
 - Asset management companies should enhance their analytical capabilities, make the best use of their asset management capabilities, develop investment strategies and provide financial products that yield better returns.
 - Asset owners and asset management companies are also expected to be engaged in stewardship activities in a proactive manner, which would contribute to sustainable growth and increased corporate value of Japanese companies over the medium- to long-term, as mentioned above.
 - In addition, it is important for asset owners and asset management companies to visualize (disclose) their operation state of assets in a comparable manner, which would allow assessments by beneficiaries and customers and would lead to an improvement in the capabilities of asset owners and asset management companies.
 - Furthermore, it is also important to diversify asset class to include alternative investments and sustainable investments, with a view to expanding the supply of growth funds for the sustainable growth of Japan's economy and society, including its local economies. It would also facilitate portfolio diversification.
- To this end, the government will promote:
 - a reform of the asset management sector;
 - a reform of asset ownership;
 - financing for growth and diversity in investment opportunities;
 - effective implementation of stewardship activities; and
 - strengthening of public relations and communications.
 - Through these measures, the government will embed the remaining piece and promote Japan as a leading asset management center, which will contribute to the growth of Japan's economy and Japanese people's asset income.

II. Follow up

- The Cabinet Secretariat and others will conduct a review of progress around June 2024.

III. Reforming the Asset Management Sector

- i. Enhance the asset management capabilities and improve governance of the asset management sector

Challenges

- Given the important role it plays in managing household assets, it is essential that the asset management sector be trusted by the public and enhance their asset management capabilities, if the “virtuous cycle of growth and distribution” is to be achieved.
- In particular, major financial groups have a crucial role to play. The entire group needs to commit to developing management and governance structures that take into account the best interest of customers and ensuring their effectiveness.
- As human capital is the source of the competitiveness of the asset management business, major financial groups need to make efforts strategically to develop and retain diverse and highly-skilled human capital.

Policy Responses

- The government will call on major financial groups to develop and publish their plans to articulate the role and position of their asset management business in their business strategies, enhance their investment management capabilities, and improve governance from the standpoints of enhancing expertise and developing and retaining human capital.
- The government will develop a set of principles for product governance of asset management companies to maintain the quality of financial products, including the disclosure of the names of fund managers, with a view to ensuring that financial products are developed in a manner which ensure the products that serve the best interest of customers are chosen. The government will ensure that the sales of financial products are conducted in a customer-oriented manner, including thorough strict enforcement of the principle of suitability.

ii. Promote new entry of domestic and overseas firms into the asset management sector as well as competition

Challenges

- Currently, new entry of financial firms into the asset management sector is limited in Japan, with unique business practices and entry barriers having been pointed out. Through rectifying them and taking measures to promote new entry, it is necessary to set up an environment in which excellent domestic and foreign businesses and talents will gather in Japan and compete among them to provide better and well-diversified products and services to investors, including households.
- In addition, if asset management capabilities are improved and asset classes are diversified through competition by promotion of new entry, it will lead to enhancing investment for startups and listed growth companies, to which sufficient

investments have not been supplied so far.

Policy Responses

(A) Rectify Japan’s unique business practices and removing barriers to entry

- The government will set up an environment for encouraging transition from the current double-check calculation¹ of net asset values of investment trusts to single-check calculation, including through industry efforts to standardize the calculation methodology and new provisions in the Supervisory Guidelines which set expectations in cases where a financial firm develops a rule for correcting net asset values (materiality policy)².
- Furthermore, the government will work with stakeholders to rectify the inefficiencies caused by the oligopoly of IT vendors for investment trusts, including the issue of user fees.

(B) Establish special zones for financial and asset management businesses

- In cooperation with relevant government ministries and agencies, the Financial Services Agency (FSA) and aspiring local governments will work together to concentrate financial and asset management services in specific regions and promote their sophistication on asset management and competitiveness. In addition, they will support the priority areas that these regions promote in an integrated manner as targets for financial and asset management. The government will promote these regional initiatives and national policies for promoting Japan as a leading asset management center (such as deregulation) in an integrated manner.
- From such perspectives, with the aim of establishing special zones, consideration will be given to: (i) local initiatives (improvement of the business and living environment, tax and financial support, enhancement of administrative services including by greater availability of services in English, and support for priority areas); and (ii) national support (financial sector, business and living environment, regulatory reform related to priority areas and enhancement of administrative services including by greater availability of services in English).
- The FSA will announce an outline of the special zones at the end of 2023.

¹ In Japan, the net asset value of an investment trust is calculated and verified by both the asset management company and the trust bank on a daily basis (double calculation). It has been pointed out that it is a business practice unique to Japan that causes additional costs for investors and barriers to new entry. In the United States and Europe, trust banks or professional firms are often in charge of this task (single calculation).

² “Materiality policy” is a provision that stipulates that a revision of the net asset value of an investment trust will only be taken when there is a material error in its calculation.

Subsequently, the FSA will develop and publish a package of the special zones around summer 2024 after inviting local governments to participate, followed by consideration in cooperation with relevant government ministries and agencies.

(C) Introduce a new program to support new entrants (Japanese EMP)

The government will develop a program to facilitate entrustment to emerging asset managers through joint public-private initiatives, and take the following measures:

- The Asset Owner Principles (see IV. i. below) shall include a provision on the treatment of emerging asset managers in the selection of fund managers from the standpoint of ensuring that an asset manager who takes into account the best interest of beneficiaries and conducts its business honestly and fairly is selected.
- The government will request that financial institutions such as banks and insurance companies entrust asset management to emerging asset managers actively and not exclude them simply because their business history is short. The government will also encourage asset owners not to exclude emerging asset managers simply because their business history is short, but to select appropriate asset managers from a wide range of pools, including emerging asset managers, from the standpoint of selecting those who take into account the best interest of beneficiaries and conduct business honestly and fairly, which is expected of asset owners. In addition, the government will take stock of and publish the examples of initiatives taken by financial groups with a view to encouraging their further efforts.
- The government will provide a list of emerging asset managers (entry list) under a joint public-private initiative for use by financial institutions and asset owners who want to use emerging asset managers. In addition, the attractiveness and potential of the Japanese market, including the discovery and utilization of emerging asset managers, will be communicated and shared at the Asset Management Forum (see VII. below).
- To promote new entry of firms into the asset management sector, the government will deregulate to allow asset managers outsource middle- and back-office operations and entrusting all asset management mandates to a business entity whose quality of services has been appropriately secured.
- In addition, the government will expand the Financial Start-Up Support Program and one-stop centers such as the Financial Market Entry Office.

IV. Reforming asset ownership

i. Develop “Asset Owner Principles”

Challenges

- From the standpoints of taking into account the best interest of their beneficiaries and conducting businesses honestly and fairly, asset owners are expected to enhance their capabilities, including through setting goals according to the objectives of asset management and selecting the asset management company by rigorous assessment of whether it could meet the goals. In addition, asset management fees that are commensurate with the added value generated by active management and engagement will create incentives toward sophistication of the asset management sector.
- The scope of asset owners is broad, including public pensions, mutual aid associations, corporate pensions, insurance companies, and university funds. Whereas the issues differ from one asset owner to another, asset owners have common roles to play from the standpoints of fulfilling their responsibilities to achieve their respective investment objectives and targets and bring about appropriate investment results for beneficiaries.

Policy Responses

- The government will develop “Asset Owner Principles” by summer 2024, which is a set of common principles for asset owners' asset management, governance and risk management. In the process of development, it will consider the issues among those listed in the next section (ii. Reforming Corporate Pension Funds) that are common to asset owners other than corporate pensions, such as public pensions and mutual aid associations, but were not discussed at the Sub-Committee on Promoting Japan as a Leading Asset Management Center.

ii. Reform Corporate Pension Funds

- There are various types of entities among asset owners. Of these, there are two major types of corporate pensions: defined benefit corporate pension plans (DBs) and defined contribution pension plans (DCs). They play an important role in guaranteeing benefits in addition to public pensions and enabling households to lead a more affluent lifestyle in their old age. Corporate pensions also play an important role as part of "investment in people."
- To make best use of these roles and maximize the interest of their beneficiaries, it is important to advance efforts to improve the management capabilities of corporate pensions.
- In the case of DBs, contributions can be reduced or suspended if the investment performance is strong over the long term, and the level of benefits can be reviewed upwards if a high level of asset accumulation continues. On the other hand, the business owners have to make additional contributions if the investment performance is poor and the funding shortage exceeds a certain range.

- From these standpoints, active discussions were made at the Sub-Committee on Promoting Japan as a Leading Asset Management Center by representatives of related ministries and Committee members with respect to the challenges facing corporate pensions and the measures to address them; the results of the discussion are described in this section, “Reforming Corporate Pension Funds.” At the same time, this does not mean that corporate pension funds has more challenges than other asset owners. It should be noted that corporate pensions are one of the retirement benefit schemes, and each corporate pension plan is defined by agreement between labor and management on a company-by-company basis. The optimal solution therefore differs by company.

(A) Reform defined benefit corporate pension plans (DBs) ³

a. Improve asset management capabilities

Challenges

- In order for each DB to execute its operations in an honest and fair manner, taking into account the best interest of beneficiaries, it is important that it develop the most appropriate management policy⁴ based on the financial and personnel strategies of the company and the status of pension finances, select an appropriate asset management company based on the management policy, and review the policy periodically in accordance with changes in the circumstances surrounding the company. In addition to continuing these efforts, it is particularly important to examine expected rates of return and review asset allocation as necessary, keeping a close eye on emerging new changes in economic and market conditions.
- In this regard, over 90% of all DBs are less than 10 billion yen in total assets, and it has been pointed out that ensuring that such small DBs fulfill fiduciary duty and improve their expertise would place burden on them. While outsourcing by a small DB of management operations to a single financial institution (called “general manager”⁵) should not be denied from efficiency standpoints, it is also important

³ In DBs, the benefits to be received by employees in the future are determined in advance. Business owners pay the necessary contributions and manage assets. The total assets of DBs in Japan is about ¥ 66 trillion, accounting for about 70 percent of all corporate pensions.

⁴ In order to prevent the selection of asset managers from being distorted by the business relationship with the company, it is important for asset managers and their financial groups to conduct business in an honest and fair manner, taking into account the best interest of customers.

⁵ A financial institution who represents multiple financial institutions in accordance with the DB's policy, receives and allocates contributions according to each financial institution's share, pays benefits, and

that such a DB compare the general manager with other financial institutions and switch the institution when necessary⁶.

Policy Responses

- To ensure that DBs take into account the best interest of beneficiaries and execute their operations in an honest and fair manner, the government will take necessary measures, including: promotion of efforts for human resource development at DBs, through training and information provision on asset management, aimed at improving their investment capabilities and raising their awareness of fiduciary duty; and amendment of the relevant guidelines to encourage regular assessment by DBs of the performance of the management contractors, including the general managers, regardless of the form of the contract, and to facilitate a review by DBs of management contractors, including switching to another firm as necessary depending on their asset management capabilities.

b. Expand joint management options

Challenges

- Although financial institutions have already developed schemes for joint management so that small-sized DBs can manage their assets efficiently, it is considered useful from the standpoint of fiduciary duty and expertise that such small-sized DBs participate in the joint management scheme by the Pension Fund Association, which is also an asset owner.
- On the other hand, it has been pointed out that, with regard to comprehensive corporate pension funds comprised of multiple employers, the employers tend to lack the awareness that they are the responsible operators of the pension funds. Efforts have therefore been made to strengthen the governance of these pension funds.

Policy Responses

- The government will encourage the Pension Fund Association to make efforts to improve its joint management scheme, including by enriching its product lineup, to enable more small-scale DBs to make appropriate use of it, based on appropriate cooperation with financial institutions, including trust banks, while taking into account the appropriate governance.

integrates the payments.

⁶ It has been pointed out that, in cases where the DB outsources asset management to the general manager, the switching costs from one general manager to another are high and the constituent asset managers may be fixed.

c. Promote disclosure of investment information for subscribers

Challenges

- While information on DBs is already circulated to subscribers, it has been pointed out that there is information asymmetry among pension fund managers, business owners, and subscribers. For the best interest of subscribers, it would be useful to increase transparency so that business owners and subscribers can compare the investment information of the pension fund with that of other funds when conducting necessary reviews of the DB scheme, including investment policies. In doing so, it is important for pension fund managers to smoothly provide information to plan sponsors.

Policy Responses

- Regards the DBs, measures will be taken to raise awareness of the meaning of the aforementioned investment results of DB funds and to disclose the information on the pension fund, including the status of asset management and the initiatives related to the utilization of skilled person, in a manner that can be compared with other funds. Specific measures for the disclosure will be finalized along with the conclusion of the next revision of the pension system (at the end of 2024), including the possibility of compilation and publication of information by Ministry of Health, Labour and Welfare, taking into account the size of DBs among others. The new measures will be implemented at the time of enforcement of the next revision of the pension system, though some of these measures may be implemented without waiting for it.

(B) Reform defined contribution pension plans (DCs) ⁷

a. Improve the framework for appropriate product selection

Challenges

- As DCs are managed by individual employees, it is important to select appropriate management policies at each stage of the management institutions entrusted with the management of DCs by the business owners, business owners, and subscribers (individual employees) themselves.
- Given the economic circumstances in which prices and wages are rising, adequate consideration of inflation risk (the possibility that real future purchasing power

⁷ In DCs, the amount contributed by business owners is predetermined in advance, and employees receive benefits based on the investment results. Asset management is carried out by individual employees. The total assets of DCs in Japan is about ¥ 18 trillion, accounting for about 20 percent of all corporate pensions, and the number of companies utilizing DCs is increasing.

cannot be secured) is essential when selecting an appropriate investment policy. At present, however, approximately 30 percent of subscribers invest in principal-guaranteed funds only.

- It has been pointed out that efforts should be made to standardize part of the DC operations to improve the efficiency of the management of DCs and reduce management costs.

Policy Responses

- In order to ensure that appropriate selection about investment policy is made at each stage of asset management institutions, business owners, and subscribers, such as changing designated investment methods to investment products and improving the investment portfolio based on agreements between labor and management, the government will take measures such as to promote efforts to disclose information on designated investment methods and the investment portfolio, continuing financial education, and sharing of good examples, in cooperation with stakeholders. The measures may include encouraging business owners to explain to subscribers more carefully the risks involved in adopting principal-guaranteed investment products as a designated investment method in a market environment where prices are rising, and to review the composition of investment portfolio as necessary.

b. Promote disclosure of investment information for subscribers

Challenges

- While the management policy of DCs is already notified to subscribers, it has been pointed out that it is difficult to compare the investment policies. For the best interests of subscribers, it would be useful to promote disclosure so that business owners and subscribers can appropriately compare and select the investment policies, including comparison with other companies and other asset management institutions.

Policy Responses

- Measures will be taken to disclose the information of each business owners, including the lineup of investment policies and the status of asset management, in a manner that can be compared with other business owners. Specific measures for the disclosure will be finalized along with the conclusion of the next revision of the pension system (at the end of 2024), including the possibility of compilation and publication of information by the Ministry of Health, Labour and Welfare. The new measures will be implemented at the time of enforcement of the next revision of the pension system, though some of these measures may be implemented without

waiting for it.

(C) Further promote private pensions, including corporate pensions

Challenges

- Those participating in private pensions, including corporate pensions, account for approximately 30 percent of those insured by employees' pension plans. It is therefore necessary to make further efforts to promote private pensions and provide support toward that end in order to enable households to lead a more affluent life in their old age.

Policy Responses

- The new public organization to accelerate financial and economic education, which is expected to be established as a new authorized corporation, shall conduct government-wide public relations activities related to private pensions in cooperation with relevant ministries and agencies. Specifically, the organization will support education for employees in the workplace (by dispatching lecturers), including at companies that have introduced corporate-type DCs, and develop public relations activities related to corporate pensions and private pensions, including iDeCo⁸.

V. Promoting Financing for Growth and Diversifying Investment Opportunities

i. Promote investment in startups with growth potentials

Challenges

- For the sustainable growth of the Japanese economy, it is necessary to set up an environment that promotes investment in startups and transactions of unlisted equities.

Policy Responses

- The government will develop a set of principles for venture capital funds with a view to promoting investment in startups. The government will also promote fair value evaluation of unlisted equities and ease the regulation for investment crowdfunding.
- In order to promote the issuance and transactions of unlisted securities, the

⁸ The individual-type defined contribution pension plan (iDeCo) is one of the private pension plans, which means that enrolling in the plan is optional. Based on the Doubling Asset-based Income Plan, etc., the government will also reform the iDeCo system in conjunction with the next pension system reform.

government will ease the entry requirements for business operation that solicits and intermediates unlisted securities for professional investors and for business operation of proprietary trading systems that only handle unlisted securities, as well as the regulations related to listed venture funds. The government will also review the disclosure requirements for small-amount public offerings to reduce the burden on startups.

ii. Diversify investment opportunities, including alternative investments and sustainable investments⁹

Challenges

- It is necessary to improve risk diversification and investment opportunities through promoting the provision of various investment products according to investors' risk-bearing capacity.

Policy Responses

- From the standpoint of diversifying investment opportunities for investment trusts, the Investment Trust Association of Japan (JITA) will revise its self-regulation to allow investment trusts to partially include unlisted equities in their investment portfolios.
- In addition, the JITA will revise its self-regulation to allow the incorporation of unlisted foreign-based investment trusts that includes alternative investments into publicly offered domestic investment trusts.
- The government will host a “Dialogue on Enhancing Sustainability Investment Products” by the end of 2023 among various stakeholders such as asset management companies, financial product sales companies, and experts.
- The government will set up a framework for making the platforms for DVP (Delivery Versus Payment) settlement in foreign currencies available to promote the issuance of domestic bonds denominated in foreign currencies.

VI. Effective Implementation of Stewardship Activities

Challenges

- In order to expand the domestic market, it is important to improve the attractiveness of the Japanese market as well as reform the asset management industry. It is

⁹ We will promote impact investment in the aspect of investment diversification. In addition, regardless of investment diversification, the development of businesses and infrastructure in local regions as investment target is itself important for local economies, and it is also important to be invested into such fields.

necessary to promote effective engagement between investors and companies with the aim to increase corporate value over the medium- to long-term.

Policy Responses

- The government will work with the Tokyo Stock Exchange (TSE) to follow up on the initiatives by listed companies toward development, disclosure, and implementation of their business plans in response to the TSE's request "Action to Implement Management that is Conscious of Cost of Capital and Stock Price."
- The government will promote effective engagement efforts by institutional investors, including through consideration of a review of the large shareholding reporting rule.

VII. Strengthening Public Relations and Communications

Challenges

- It is important to continue dialogue with related parties in order to advance the abovementioned measures in line with the needs of related businesses and investors in Japan and abroad. It is also important to disseminate information on the attractiveness of the Japanese market.

Policy Responses

- An "Asset Management Forum" will be launched in collaboration with domestic and overseas asset management companies as core members, as well as with related businesses and investors. A preparatory committee for the forum will be established by the end of 2023. The government will also exchange views with local governments, businesses and investors on measures for promoting Japan as a leading asset management center, and consider further policies and measures as necessary.