

## Startup Development Five-year Plan

### 1. Basic Concept

- The Kishida cabinet is promoting efforts to achieve a "new form of capitalism." Startups embody the very idea of a "new form of capitalism," which transforms social issues into engines of growth to realize a sustainable economic society.
- Japan's leading electronics and automobile manufacturers also began their history as startups founded by young people in their 20s and 30s immediately after World War II and have since become global companies that drive the Japanese economy.
- However, as of 2022, although a diverse range of individuals taking on the challenge of creating a startup have emerged, the corporate entry rate and the number of unicorns (unlisted companies with a market capitalization of over 100 billion yen) has remained at a low level compared to those in the US and Europe.
- On the other hand, it has become clear that even large, existing companies using older technologies can stay in business if they engage in open innovation, such as through M&A with startups and collaborations with startups to introduce new technologies.
- With the above as a backdrop, this year will be the first year of startup creation, and second boom in startups following the postwar period of startups will be realized. To this end, an ecosystem that fosters startups in Japan will be created by accelerating startups and by promoting open innovation at large, existing companies.
- In creating this startup ecosystem, a way of thinking that is focused solely on small, specific niches ("Galapagos thinking") will be avoided, and instead a perspective of creating startups that boldly challenge the global market will be taken.
- To date, a Minister in charge of startups has been established, have clarified a unified command post function for implementation, and, in the current fiscal year's Comprehensive Economic Measures to Overcome Rising Prices and Realize Economic Revival, and the Implementation of Supplementary Budget, a Cabinet Decision on 1 trillion yen worth of budgetary measures for developing startups was approved, the largest ever. While utilizing this, from the viewpoint of building human resources and networks, from the viewpoint of providing funds for business growth and a diversification of exit strategies, and from the viewpoint of promoting open innovation, in order to fully mobilize policy resources over many years a five-year plan will be compiled that gives an overall picture of Japan's startup development measures by the

public and private sectors.

## **2. Targets**

- In order to create an ecosystem for creating and nurturing startups in Japan and to realize a second startup boom, it is necessary to set major targets and for the public and private sectors to work together to achieve them.
- In terms of targets, it is important to focus not only on the "number" of startups (the number of businesses that are started), but also on the growth, or "expansion of scale," of the startups that have been established. Therefore, the focus will be on the amount of investment in startups as an indicator that encompasses both the absolute number of startups and the expansion of scale of the startups that have been established.
- The amount of investment in startups has increased by a factor of 2.3x over the past five years (from 360 billion yen in 2017 to 820 billion yen in 2021), and is currently in the 800 billion yen range<sup>1</sup>, but, by implementing this five-year plan, the public and private sectors will work together to achieve the major target of increasing the scale of investment by more than a factor of 10x (to 10 trillion yen) by FY2027, five years from now.
- Furthermore, in the future, by creating 100 unicorns and 100,000 startups, the aim will be to make Japan the largest startup hub in Asia and one of the world's leading clusters of startups.

## **3. Package Direction**

- The higher a country's average rate of firm creation and destruction (an index of creative destruction), the higher the per capita rate of economic growth. Furthermore, young businesses (startups) have a higher rate of contribution to added value creation. On the other hand, the corporate entry rate in Japan remains at 5.1%,<sup>2</sup> compared to 9.2% in the US and 11.9% in the UK, and the corporate exit rate in Japan is also 3.3%,<sup>3</sup> compared to 8.5% in the US and 10.5% in the UK.
- First, a large number of startup leaders will be fostered in Japan and their entrepreneurship will be accelerated. Then, in order to discover and foster young human resources with outstanding ideas and technologies, practical entrepreneurship training will be conducted, utilizing mentors and educational institutions not only in Japan but also overseas. In addition to this, human resources who will be responsible for startup entrepreneurship in Japan will be fostered and global network of such human resources will be built by dispatching young human resources to countries around the world for

training, etc.

- In the U.S., the rate of corporate entry in the 1980s was 12%,<sup>4</sup> whereas currently (2019) it is 9%.<sup>5</sup> However, while the number of entrepreneurship themselves is declining, the amount of venture capital investment is increasing (from \$30 billion in 2008 to \$60 billion in 2015).<sup>6</sup> In other words, support for promising companies is increasing and plays a major role in nurturing startups.
- Therefore, in Japan as well, the supply of funds will be expanded, including public capital, in conjunction with securing startup leaders. For this reason, in addition to fostering domestic venture capital, foreign investors and venture capital firms will also be attracted. Additionally, from the perspective of diversifying startups' business development and exit strategies, primarily for deep tech startups that require time to grow, the development of an environment for stock options and the expansion of public procurement for startups will be promoted.
- From the perspective of open innovation, significantly few Japanese companies invest in startups compared to the US, China, and Europe (\$40.2 billion for the US, \$11.5 billion for China, \$9 billion for Europe, and \$1.5 billion for Japan (2020 figures)).<sup>7</sup> Japan also has comparatively few mergers and acquisitions (M&A) when compared to Europe and the US (1,473 for the US, 244 for the UK, 60 for France, 49 for Germany, and 15 for Japan (2020 figures)).<sup>8</sup>
- When considering exits for startups and focusing on the ratio of M&As to IPOs, the ratio is 90% M&As for the US, while in Japan the ratio is 80% IPOs, so Japan has an overwhelmingly high ratio of IPOs to M&As,<sup>9</sup> and it is necessary to increase the ratio of M&As.
- Thus, startup acquisitions are important both as an exit strategy for startups and as a means for promoting open innovation in existing large companies. It is important to develop an environment that promotes open innovation where existing companies collaborate with startups.
- Based on the above, in this Startup Development Five-year Plan, the following three major initiatives will be promoted in an integrated manner:
  1. Build human resources and networks for creating startups
  2. Strengthen funding for startups and diversify exit strategies
  3. Promote open innovation

- Additionally, the fact that public support has been provided to a startup serves as a certification effect (approval) for the startups that receive support, which is said to stimulate even further private investment. In the recent Comprehensive Economic Measures, the Cabinet Office has already approved the largest ever budgetary measures (approximately 1 trillion yen) for startup development, and, while setting KPIs for policy effects and following up with the Minister in charge of startups, the Government will continue to fully mobilize its policy resources and strive to achieve a major direction for the public and private sectors.
- As for deep tech, which are new industrial fields that can become the core for next-generation industries, priority fields will be clarified. In addition, efforts will be made to strengthen entrepreneur education and startup creation support that are specialized for individual deep tech fields such as agriculture and medicine.
- Tax measures will also be considered in future tax reform processes.

#### **4. First Pillar: Building Human Resources and Networks for Startup Creation**

- As mentioned above, the corporate entry and exit rates in Japan remain at a low level compared to the US and major European countries. In terms of the percentage of people who consider starting a business to be a desirable occupational choice, Japan is at the lowest level among major and developed countries, at 25%, compared to 79% in China and 68% in the US.<sup>10</sup>
- According to a survey of startups, 60% of respondents answered that it is necessary to improve "awareness, culture, and climate" in order to increase the number of entrepreneurs in Japan.<sup>11</sup> For this reason, from a young age (such as for individuals who are in their teens and twenties), it is necessary to promote the development of human resources who aspire to create startups.
- As for startup creation support at Japanese universities, the percentage of universities that provide commercialization support, facility provision, and entrepreneurship education for startups is still low but will be improved.
- In addition, frameworks for providing support to those who actually want to start a business will be enhanced so that they can effectively connect their skills and knowledge to their business.
- "Incubators," which provide startups with facilities and equipment on loan, are gradually being established in Japan as organizations to support startups. On the other

hand, for the creation of startups it is not enough to simply provide entrepreneurs with facilities and equipment, and it has become clear that it is essential for people with entrepreneurial experience to serve as mentors (advisors) and to provide detailed advice.

- Furthermore, it has been found that startups receiving support from "accelerators" that provide mentoring functions are able to succeed (acquisition or exit) earlier than startups that do not receive support.<sup>12</sup>
- This suggests that accelerator mentors are able to provide useful information to startups. Opportunities to receive support from mentors in Japan are still limited, so it is necessary to secure such opportunities.
- For this reason, the following specific initiatives to build human resources and networks for startup creation will be promoted:

(1) Expand and horizontally develop of support projects by mentors

- As a program to select and support young human resources in Japan, the "MITOU Program" (by the Information-technology Promotion Agency, Japan) in the IT field has been discovering talented human resources (screening for adoption) and providing guidance for projects (about 70 people per year) by first runners in the industrial and academic world as mentors. So far, 300 people have started or commercialized their own businesses through this program.
- Taking this idea and then expanding it on a large scale and developing it horizontally will be meaningful for startup development, so by horizontally expanding it to other organizations (such as the New Energy and Industrial Technology Development Organization (NEDO) and the National Institute of Advanced Industrial Science and Technology (AIST)) and expanding eligibility to young human resource development efforts centered around students at College of technology (KOSEN), high school students, and university students, the overall scale of the nurturing will be expanded from "70 people per year" to "500 people per year" in five years.
- In addition, there will be consideration of further expanding the main entities for mentor-based training of young human resources, such as by the Japan Agency for Medical Research and Development (AMED), the Japan Science and Technology Agency (JST), the Japan Aerospace Exploration Agency (JAXA), and the National Agriculture and Food Research Organization (NARO).
- In addition to providing support to carry on the achievements of the "INNO-vation

Program," discovering top overseas talented human resources from Asia and other regions, and strengthening efforts to attract them to Japan, with the support of overseas accelerators there will be an expansion of global startup acceleration programs, which implement business strategy formulation for domestic startups, mentoring with experts, network expansion, etc.

(2) Establish entrepreneur development hubs overseas ("Dejima" programs)

- For dispatch programs that select 20 young people who want to start a business and then dispatch them to Silicon Valley, over the next five years the scale of dispatches will be expanded to about 1,000 people. In doing so, the program will be structured to recruit a wide range of human resources, including students and female entrepreneurs. In addition, from the perspective of securing opportunities to receive guidance from mentors, which are still restricted in Japan, intern trainings, etc. will be added at US cities that are hubs of innovation (such as Silicon Valley, Boston, New York, San Diego, and Austin) and at startups, venture capital firms, and accelerators, etc. in Israel, Singapore, Northern Europe, and other parts of the world. Furthermore, hubs for Japanese businesses will be newly established in Silicon Valley and Boston.

(3) Enhance entrepreneurial education, including the establishment of entrepreneurship development programs for Japan at US universities

- When it comes to fostering entrepreneurs in Japan, there are limits to providing educational programs with global strengths. For this reason, the establishment of an MBA program for fostering entrepreneurs in Japan at American universities will be considered, and the environment will be improved so that people can earn a degree while working in Japan.

(4) "One University, One Exit" movement

- Although many university-launched startups are located in metropolitan areas such as Tokyo, Kanagawa, Kyoto, Osaka, and Fukuoka, startups are being born all over Japan and there is also potential in rural areas.
- In order to support the creation of university-launched startups, research universities across Japan will develop a movement to "start 50 companies per university, with one company aiming to exit'."

(5) Support startup creation at universities and for elementary, junior high, and high school students

- In consideration of the fact that nearly half of university students also want to work for startups, it is important to provide these prospective students with opportunities to

receive entrepreneurship education and support from mentors and accelerators.

- Centered on the eight cities in the Startup City Project Japan and with the participation of overseas accelerators and venture capital firms, including global expansion, the commercialization of university research results for more than 5,000 projects in five years will be supported.
  - For this reason, a new fund of 100 billion yen for five years, which is 10 times the scale of the current fund, will be created at the Japan Science and Technology Agency.
  - The introduction of a "cross-appointment system" that allows researchers, etc. to conclude employment contracts with both companies and universities/KOSEN will be promoted.
  - Startup incubation facilities at universities will be developed. In addition, efforts will be made to match technology seeds from universities and national research institutes (such as the AIST) with management personnel from large companies.
  - In addition, a support program for entrepreneurship education that invites entrepreneurs as lecturers will be newly established for elementary, junior high, and high school students, and entrepreneurship education will be expanded for elementary, junior high and high school students by utilizing class hours such as "integrated study" classes.
  - Furthermore, support for educational opportunities will be strengthened for high schools and KOSEN that systematically engage in entrepreneurial education and for elementary, junior high and high school students with high abilities in STEM fields.<sup>13</sup>
  - Currently, annual study abroad is supported for 16,000 undergraduate and graduate students and 1,400 high school students, but, in addition to some undergraduate and graduate students who receive education in the US and Europe feeling burdened by the repayment of large amounts of scholarships, in order to spread the entrepreneurial spirit in Japan it is also meaningful to have junior high and high school students study abroad and gain learning experiences overseas. For these reasons, Japan will aim to expand support over the medium to long-term.
- (6) Enhance entrepreneurship education at KOSEN
- For KOSEN, in addition to actively promoting entrepreneurship education at KOSEN, collaborations amongst KOSEN will also be promoted to utilize their high technical capabilities.

- Additionally, the environment will be improved for KOSEN that are engaged in entrepreneurship education that utilizes AI and deep tech, such as by creating spaces for making prototypes, which will enable free production activities and practical classes.
- (7) Global startup campus concept
- In order to contribute to the global expansion of human resources and to research seeds from Japanese universities and research institutes, a global startup campus will be created through public and private funding that combines international joint research and incubation functions in deep tech fields by attracting top overseas universities and by inviting outstanding researchers.
  - In doing so, the aim will be to promote the establishment of long-term and stable cooperative relationships with top overseas universities, etc., and in managing the campus, the aim will be to build the campus's own endowment (university fund) and realize strategic management.
  - Additionally, the establishment of the campus will revitalize research and development at domestic universities and encourage reforms. Furthermore, rather than waiting for the completion of campus facilities and equipment, joint research and researcher exchanges with overseas universities, etc. will be proactively implemented, working to quickly create startups. In addition, these initiatives will work to develop doctoral course students and young researchers who will play an active role not only in academic fields, but also in startups and venture capital firms.
  - Access to overseas ecosystems and global inner circles will also be possible through the utilization of entrepreneur training and incubation programs held by overseas universities and the formation of networks with top overseas venture capital firms.
  - Collaborating with domestic and foreign companies will improve the ability of domestic companies to create innovation through joint research and entrepreneur development programs on global startup campus.
  - In cooperation with relevant local governments and from the perspective of strengthening the ecosystem through urban planning, a truly global campus will be formed by promoting measures in an integrated manner, such as by improving the living infrastructure for foreign human resources.
  - This initiative will be a free "place of practice" that is not bound by the rules of existing



organizations, and, from that point of view, under the Minister in charge of Startups who will act as a “guiding light” function, there will be coordination on a variety of measures with the aim of creating the campus in a centralized and efficient manner.

(8) Intellectual property strategy for startups and universities

- In order for startups to smoothly utilize intellectual property owned by universities, etc. and to develop their own business, the rules for handling non-exclusive licenses of patents jointly owned by universities and companies will be reviewed, the development of an environment that facilitates the use of startup stocks and share warrants (including abolishing restrictions on the university side when intellectual property rights owned by universities are acquired by startups in exchange for stocks and share warrants) will be considered, and "University Intellectual Property Governance Guidelines" will be compiled within the current fiscal year. Additionally, support for overseas patent applications by universities will be strengthened.
  
- In conjunction with this, there will be work to enhance databases and to strengthen public-private cooperation, including the transfer of data on the “Licensable Patent Information Database”, which registers patents with the intent of licensing or transferring them to third parties, to the private sector. In addition, the types of incentives for licensing owned patents to third parties will also be considered.

(9) Expand researchers in research fields

- In order to promote the entry of Japanese researchers into the top circles of international research and to acquire outstanding young researchers from overseas and to strengthen connections through joint research, support for international joint research with the participation of young researchers as a requirement ("Grants-in-Aid for Scientific Research - KAKENHI -International Leading Research") will be provided with the condition that, in principle, 70% of the total expenses are spent on young researchers.
  
- In order to realize world-class research universities, support, based on the Universities for International Research Excellence Act, will be provided through the 10-trillion yen University Endowment Fund. Additionally, there will be efforts to improve the treatment of doctoral course students and to improve research environments for them, with the aim of tripling by 2025 the number of doctoral course students who receive an amount equivalent to their living expenses (approximately 70% of doctoral course students who have entered doctoral course directly after the completion of master course).
  
- As further support measures for doctoral degree holders, additional salary grades, etc.

will be introduced in the public employee recruitment process for individuals who have completed a doctoral course (such as implementing additional starting salary measures in FY2023 amongst national public employees for individuals who have completed a doctoral course), and the inclusion of doctoral degrees on the business cards of public employees will be encouraged. A change in the awareness of the use of doctoral degrees in private companies as well will also be encouraged.

(10) Attract more foreign entrepreneurs and investors

- Currently, foreign entrepreneurs are permitted to enter and stay in Japan for up to one year on a Startup Visa (Foreign Entrepreneurship Promotion Project), but the persons confirming this visa are limited to local governments that are authorized by the national government.
- In order to further accelerate attracting foreign entrepreneurs in the future, not just local governments but also private organizations such as venture capital firms and accelerators authorized by the government will be able to perform the Startup Visa confirmation procedures, and the maximum period of stay will be extended.
- In addition, the granting of status of residence so that overseas investors can be active in Japan will be facilitated. Furthermore, efforts will be made to facilitate procedures for foreign individuals to open bank accounts.
- The development of the living infrastructure necessary to acquire highly skilled global human resources will also be promoted, such as by smoothly granting university entrance qualifications to foreign children who have graduated from international schools, establishing multilingual and online facilities at government agencies and medical facilities, and making more services and functions available online.

(11) Develop an environment that supports repeated attempts

- In 2022 the Employment Insurance Act was amended and a new system was established so that unemployment benefits, which individuals in principle originally lost eligibility for one year after leaving their job, would not be included in the individual's benefit period for a maximum of three years during which the individual has started and been running a business. There will be further work to develop an environment that encourages entrepreneurs to take on new challenges, such as by sufficiently publicizing this system.

(12) Promote the formation of domestic entrepreneurial communities

- In order to create in Japan as well an even more entrepreneurial community that

accelerates global expansion, regulatory reforms will be advanced, the J-Startup will be expanded, and the environment for startups will be improved, such as by developing incubation facilities.

- University support forums such as PEAKS<sup>14</sup> will be utilized as places for people involved in universities, startups, and venture capital firms, etc. to share with and train each other on best practices in ecosystem building.

## **5. Second Pillar: Enhancing Funding provision for Startups and Diversifying Exit Strategies**

- In the US, a variety of financing methods are available according to a startup's growth stage. Whether it be for IPOs, public stock offerings, private equity funds, venture capital firms, or corporate venture capital, in the US the scale of all of these financing methods greatly exceeds the scale in Japan.
- With regard to the amount of venture capital investment in 2021, the amount of investment and number of cases remains small in Japan (230 billion yen, 1,400 cases). Additionally, compared to the amount of investment in 2020, the amount of investment in the US (36.2 trillion yen, 17,100 cases) doubled, while the amount of investment in Japan only grew by a factor of 1.5x, so growth is also low.<sup>15</sup>
- Comparing companies that have received venture capital investment with those that have not, the companies that received investment have been more proactive about creating employment and innovation. That is to say, it has been confirmed that venture capital firms have significant abilities for evaluating startups and also have the ability to nurture startups.
- In order to expand venture capital investment in Japan, the Government will expand investment through limited liability investment of public capital into venture capital, including overseas venture capital, and will expand government support for startups in cooperation with venture capital.
- Additionally, from the perspective of diversifying business development and exit strategies for startups, the development of an environment for stock options and the expansion of public procurement will be promoted.
- In order to do so, the following specific measures to strengthen startup funding provision and to diversify exit strategies will be promoted:

- (1) Strengthen the functions of the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN to invest in venture capital
  - Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support JAPAN) has a track record of investments and there will be a 20 billion yen strengthening of its investment functions, bearing in mind that it will make new limited liability investments in domestic and foreign venture capital that have the financial strength and know-how to foster startups.
  - Furthermore, with regards to the new medium-term goals and plans by SME SUPPORT JAPAN from FY2024, in addition to setting goals to further strengthen limited liability investment functions, there will be consideration for supporting the development of domestic venture capital firms, such as by establishing investment quotas that are limited to venture capital firms run by young capitalists, and for reviewing the upper limit of debt guarantee systems for deep tech startups.
- (2) Strengthen investment functions of the Japan Investment Corporation
  - Japan Investment Corporation (JIC) has a track record of investing in startups through a 120 billion yen fund over the previous four years.
  - In addition to launching a new fund that will double JIC's investment scale, JIC's investment functions will be further strengthened by submitting a bill around 2024 and extending JIC's operational period to 2050 (JIC's current operational period is until 2034).
- (3) Strengthen the investment functions of public-private funds, etc.
  - Limited liability investments in domestic and foreign venture capital firms by public funds will be strengthened, including for public and private funds other than those by SME SUPPORT JAPAN and JIC, and there will be sufficient risk money supplied to realize a 10x or greater increase in startup investment in five years.
  - For public-private funds, functions to gather information from overseas and to attract investors will be strengthened, and, in order to strengthen the networks between overseas venture capital firms and Japanese startups, etc., overseas hub functions and investment functions for overseas venture capital firms will be strengthened while collaborating with NEDO and the Japan External Trade Organization (JETRO). In doing so, cooperation and collaboration from discerning gatekeepers (advisors) such as private financial institutions, etc. will also be obtained.
  - Additionally, collaborations between government-affiliated startup support

organizations will have their unified information dissemination strengthened and their effectiveness as central points of contact will be enhanced.

- Further utilization of the specific investment business of the Development Bank of Japan (DBJ) will be promoted.

(4) Strengthen support measures for R&D startups by NEDO

- In order to bridge the gap between the technology seeds of R&D startups and commercialization, and on the condition that 1/3 of the amount equivalent to the cost of practical application development be invested by certified venture capital firms, NEDO will provide subsidies for the remaining 2/3 of the amount.

- In the future the upper limit of this subsidy will be increased, the support menu will be expanded, and the number of eligible venture capital firms including overseas venture capital firms, will be increased. To do so, a new, five-year 100 billion yen fund (20 billion yen per year) will be created, which is three times the size of the current fund (6 billion yen per year). In doing so, efforts will also be made to simplify the procedures, in consideration of the burden on startups.

(5) Enhance support for drug discovery ventures by AMED

- With support eligibility limited to infectious diseases for drug discovery ventures and on the condition that 1/3 of the amount equivalent to the cost of practical application development be invested by certified venture capital firms, AMED will provide subsidies for the remaining 2/3 of the amount.

- In the future support eligibility will be expanded to drug discovery for fields other than infectious diseases, where it is difficult to raise funds, and, to do so, a total of 300 billion yen spread across 10 years (30 billion yen per year) will be added to the fund. In doing so, efforts will also be made to simplify the procedures, in consideration of the burden on startups.

(6) Strengthen connections with advanced overseas ecosystems

- In Boston, the evolution of the startup creation and nurturing model has led to the early exit of biotech startups, as venture capital firms in the biotech field have assembled highly specialized capitalists and have begun providing support in collaboration with universities, hospitals, pharmaceutical companies, and others from the basic research stage before the company is launched. The connections between the world's most advanced ecosystems like this and the ecosystem of drug discovery startups in Japan will be strengthened.

(7) Measures to encourage investment in startups

- A preferential tax system will be established for the sale of shares held by founders and other individuals and reinvestment in startups so that startups can be supplied with funds from individuals such as startup founders.
- As for the angel taxation system, there will be consideration of simplifying the procedures and moving the procedures online, such as by reducing the application documents that are required to receive the tax incentives.
- Additionally, in order to promote angel investment, the spread of platforms for information sharing and matching between angel investors and startups will be promoted.
- Measures for dealing with future social entrepreneurs (impact startups) will be considered.

(8) Promote investments from individuals to venture capital firms

- In consideration of the fact that a great deal of individual funds in other countries are invested into venture capital firms and while keeping investor protection in mind, there will be consideration, including tax measures, to further promote investments in startups from individuals through venture capital firms.

(9) Improve the environment for stock options

- In Japan the amounts raised through IPOs are smaller than in the US and Europe, and it has been pointed out that startups are rushing toward IPOs. It is important for startups that require time to commercialize, particularly those in deep tech sectors, and startups that want to remain unlisted for an extended period of time in order to expand their business, to be able to flexibly choose the timing of their IPO.
- Stock options, which are used globally as compensation for startup employees, should also be able to be used via simple procedures and with flexible exercise (listing) timing in accordance with the growth speed of the startup's business.
- For this reason, the period for exercising rights in the stock option taxation system for startups will be extended.
- Additionally, the obligation to entrust the stock certificate custody for tax-qualified stock options, which is currently required when rights are exercised while a company

is unlisted, will be eliminated and there will be a further relaxation of these regulations.

- In the US there is widespread usage of so-called stock option pools, in which a certain amount of stock option issuance limits are set in advance and stock options are then flexibly granted to employees. In Japan, the Companies Act requires that stock options be granted to employees within one year of the establishment of a stock option tranche based on a resolution at a general shareholders' meeting, and such flexible issuance of stock options is not permitted. While referring to the example of the US, the environment for realizing stock option pools in Japan will be improved, including revisions to the Companies Act measures and taxation measures.
- Furthermore, the issues that startups face when utilizing stock options, such as the use of stock option pools and the handling of stock options when employees retire or leave the company, will be consolidated and clarified in guidelines.
- The rules on how to measure the price of class shares in the case of unlisted companies are unclear, which hinders the granting of stock options as compensation. Through guidelines and other means, the rules for calculating the price of class shares will be clarified. At the same time, there have been comments that it is not clear when a special resolution at a general meeting of class shareholders is required for class shares. As such, while also taking into account actual needs, the necessary considerations will be conducted, including clarification of requirements.
- The actual situation for trust-type stock options (a system in which stock options are granted via a trust company) will be investigated and necessary measures will be taken according to the results.

#### (10) Develop an environment for the utilization of Restricted Stock Units

- A Restricted Stock Unit (RSU) is the right to be granted shares after a certain period of employment, and they are commonly used in the US as compensation and incentives from startups with limited cash reserves. On the other hand, in Japan it is unclear whether RSUs fall under the disclosure requirements for new share issuances of 100 million yen or more per year, as stipulated in the Financial Instruments and Exchange Act, and there have been comments that this is an obstacle to the introduction of RSUs. The handling of RSUs will be clarified.

#### (11) Improve environment for the use of equity investment crowdfunding

- Equity investment crowdfunding is a system in which an unlisted company issues shares and collects small amounts of funds from many people on the internet. Necessary

revisions will be made to this system while also taking into account actual needs and investor protection, such as considering the possibility of raising funds from professional investors in excess of the current maximum total issuance amount (100 million yen).

(12) Drastic review of the Small Business Innovation Research system and promotion of public procurement

- Utilizing public procurement is important for nurturing startups. With reference to the Small Business Innovation Research (SBIR) system in the US, the SBIR system in Japan will be drastically expanded to support companies (startups) that have just been established.
- Procurement from startups will be expanded in areas where the ratio of contracts from small and medium-sized enterprises (SMEs) established less than 10 years is only about 1% (77.7 billion yen (FY2020 results)) for properties, construction, and services procured by the national government, independent administrative agencies, and other government agencies, and the contract ratio will be rapidly expanded to 3% or more (to approximately 300 billion yen).
- The Minister in charge of Startups will follow up on the implementation status of the measures and will encourage the responsible ministries to correct the situation if the measures are not being achieved.
- Under Japan's current SBIR system, a total of 7 billion yen in R&D-related subsidies from the various ministries are combined to support R&D in the FS survey phase for business ideas ("Phase 1") and in the R&D phase for commercialization ("Phase 2"). Together with expanding these subsidies, the large-scale technology development and demonstration phase ("Phase 3") will also be newly added as eligible for this support.
- In doing so, not only will the Cabinet Office compile the R&D-related subsidies from each ministry and designate them, but the Cabinet Office will also create a new, five-year, 200 billion yen fund (40 billion yen per year) to further reinforce this Phase 3 R&D.
- Additionally, the use of startups (including the use of those selected as J-startups) will be promoted in a wide range of government procurement, including for public infrastructure (railways, electricity, and water).
- In order to expand the participation of startups in government procurement, a bidding



participation qualification system will be considering, including consideration of rules on free contracts and measures that grant additional points for large-scale national research.

- The following measures will be promoted to comprehensively promote public procurement by local governments:
  - In addition to unifying the different documents and forms for each local government, making procedures available online will also be encouraged.
  - In addition to encouraging a cross-sectional review of procurement participation requirements that differ for each local government, procurement by local governments and private businesses will be encouraged through visualization of the state of public procurement by the national government.
  - Measures such as granting additional points to procurement from startups when reviewing the adoption of the subsidy for the Vision for a Digital Garden City Nation to promote digital implementation in rural areas will be taken.
  - A digital marketplace that catalogs the specifications of services provided by IT companies, including by startups, and that makes it easier for the government to procure services that meet their requirements will be demonstrated during FY2023, with the aim of introducing it early.

(13) Review systems to eliminate the need for personal guarantees from managers

- 77% of those interested in starting a business cited "incurring a loan or personal guarantee" as the key risk brought about by business failure. In fact, when establishing their business, currently 47% of entrepreneurs provide personal guarantees, including loans with credit guarantees, when borrowing from private financial institutions.<sup>16</sup>
- A new credit guarantee system that does not require personal guarantees for startups less than five years old will be created. For this purpose, 12 billion yen will be provided as compensation for losses to credit guarantee associations.
- Additionally, for loans provided by the Japan Finance Corporation (JFC), a loan requirement will be set such that a manager's guarantee is not required within five years of a startup's founding. Furthermore, capital loans will continue to be provided to startups with insufficient cashflow and to SMEs whose financial situation has temporarily deteriorated. In order to do so, additional investments will be made in JFC.
- In conjunction with this, the relevant ministries and agencies will compile measures within the current year to establish financing practices that do not rely on manager guarantees.

(14) Develop the IPO process

- In line with the "IPO Process Review" from April of 2022 and based on the review, the securities industry and competition authorities will steadily review the IPO system and improve its operation. Additionally, listing examination for companies for which it is difficult to assess their corporate value, such as deep tech startups that utilize new technologies in cutting-edge fields, will be realized, and direct listings, wherein only existing shares are listed without the issuance of new shares, will also be utilized.

(15) Consideration of SPAC (Special Purpose Acquisition Companies)

- The amount of funding raised per IPO is \$300 million in the US and \$200 million in Europe, but only \$60 million in Japan. Additionally, according to an international comparison by a US research company, there are 633 US, 173 Chinese, and 147 European unicorns (private companies with a market cap of over \$1 billion). Japan, in contrast, has only six unicorns.<sup>17</sup>
- Consideration will be given to the necessary systems should SPAC (Special Purpose Acquisition Companies) be introduced, taking into account trends in international financial markets and giving due consideration to investor protection.

(16) Creation of a secondary market for unlisted stocks

- Currently, private trading systems (PTS) operated by securities companies are not permitted to handle unlisted stocks even for professional investors. In order to enable the handling of unlisted stocks for professional investors so that startups can grow without being listed, the relevant Cabinet Orders for the Financial Instruments and Exchange Act will be revised during FY2023.
- At the same time, the development of an environment for facilitating transactions in the secondary market will be promoted, for example by promoting efforts by the private sector to standardize data such as the securities of unlisted companies.

(17) Review the private placement system for professional investors

- In July 2022 the Japan Securities Dealers Association (JSDA) revised its rules regarding the private placement system for professional investors, which allows startups to solicit applications to acquire newly issued securities, from professional investors only, as a means of raising funds, and made the system available for unlisted securities as well. On the other hand, there have been some comments that there is a heavy administrative burden on startups for the specified securities information (corporate information and business performance, etc.) that is newly required to be provided or disclosed under the

new regulations. Based on this, the utilization status of the new system will be followed up on and revised as necessary while also taking into account actual needs and the perspective of investor protection.

(18) Tax measures related to the departure tax, etc. to promote overseas expansion

- In order to promote the overseas expansion of startups, when a startup is expanding overseas and when a manager himself/herself will be posted overseas, it should be confirmed and made known that it is possible for the manager to leave Japan with the company's guarantee and without the manager having to provide his/her own startup shares as collateral. In the same way, employees, etc., are not required to offer their share certificates as collateral if they pledge their shares.

(19) Develop the Web 3.0 environment

- With regards to crypto assets that are issued and held by corporations engaged in crypto asset businesses, measures will be taken so that these assets will not be subject to the year-end mark-to-market valuation taxation of corporate taxes if the crypto assets are continuously held for the purpose of operating the business.
- The tax treatment for other crypto assets as well will be considered based on their legal and accounting treatment.
- In March 2022 the Accounting Standards Board of Japan (ASBJ) organized and announced discussions to address issues on accounting for crypto asset businesses are underway. Based on these discussions, the government will promote an environment that enables audits by certified public accountants and audit firms.
- By clarifying that LPSs are eligible for investing in businesses dealing in so-called security tokens, which are tokenized securities, and other businesses dealing in crypto assets and other tokens, encourage diversifying of investments in businesses dealing in them.
- In addition, the benefits and challenges of blockchain-based DAO (Decentralized Autonomous Organizations), which are expected to be used for regional revitalization and the resolution of social issues, will be quickly sorted out.
- Discover and support new uses cases for the international expansion of art, games and other content businesses that use digital technologies.
- Professionals who can handle advanced digital technologies such as blockchain

technologies will be secured and fostered.

- In order to promote collaboration between Japanese startups and overseas experts with advanced skills and expertise, an environment will be created where overseas experts can play an active role by creating networking opportunities for the collaboration between domestic and foreign Web 3.0 experts.

(20) Create business growth collateral

- In order to develop an environment in which startups, etc. that do not have many tangible assets can procure growth funds in an optimal way, it will be effective for financial institutions to evaluate the business itself, such as its business value and its future potential, and then provide financing without relying on real estate collateral, etc.
- As such, in order to create a system that in which startups can procure growth funds from financial institutions by using the entire business as collateral, the aim will be to quickly submit the relevant bills to the Diet.

(21) Redirecting personal financial assets and long-term investment funds such as GPIF to venture investment

- In addition to redirecting the 2,000 trillion yen of personal financial assets in Japan toward nurturing startups, pathways will be developed to redirect long-term investment funds such as GPIF to venture investment and infrastructure provision.
- For this reason, Doubling Asset-based Income Plan will be promoted in order to redirect personal financial assets to nurture startups by promoting venture investments from angel investors and by investing in domestic venture funds such as pension funds.
- Additionally, from the perspective of benefits for the insured, etc., such as sustainable growth of the overall market and risk reductions and performance improvements through diversified investments, public institutional investors such as GPIF will work to develop an environment for expanding the supply of funds to domestic startups, which are growth engines, through investments in domestic venture funds.
- With regard to corporate pension plans, we will encourage the plans to accept the Stewardship Code, which aims to increase the medium- to long-term investment returns of the beneficiaries, and encourage listed companies to work on human resources and operational initiatives based on the Corporate Governance Code.

(22) Promote startup financing by banks, etc.

- As for supply of funds to startups through loans, the state of support for startups will be flexibly confirmed and followed up on through interviews, etc. while also monitoring banks, etc. based on strategic priorities, etc.
  - Normally, the Banking Act prohibits banks from investments of more than 5% in business companies. However, in 2021 the Banking Act was amended to expand an exception, thereby allowing banks to make investments of more than 5% in startups that have been established for less than 10 years. In the future, sufficient awareness activities on this change will be conducted, the implementation status will be followed up on, and banks will be encouraged to actively invest in startups.
  - In addition to the above, the environment will be improved to promote financing from banks in Japan to startups, for example in the JFC's startup support system, by making the financial industry (FinTech companies) eligible for financing after having been screened that there is no risk in lending to them.
  - The formation of funds by financial institutions and investments in startups by regional financial institutions will be promoted. Additionally, it will be clarified and awareness will be spread that continuous investments from banks to startups will not be subject to restrictions such as those for speculative unlisted stocks.
- (23) Develop a social entrepreneurship ecosystem and promote impact investments
- Even in Japan, when younger people think establish a startup, they often aim of addressing social issues such as environmental problems or concerned with raising children. In fact, the top motivation for wanting to create a startup in Japan is "Wanting to solve social issues and wanting to be of service to society" (73.7% (2021 questionnaire survey for startups)).<sup>18</sup>
  - For this reason, at domestic universities the development of educational programs and of networks related to social entrepreneurs (impact startups) will be supported, and the creation of hubs for fostering social entrepreneurs will be promoted.
  - Overseas dispatch programs for young people who aspire to becoming social entrepreneurs will be promoted.
  - As for services that have been handled by the public sector up until now, it is expected that the private sector will be proactively involved in order to respond to diverse needs in a detailed manner. Japan is said to be a developed country that is facing challenges, will take the lead in the world in recognizing social issues as energy for growth, and

will build systems into the economy and society to resolve them.

- To this end, in order to promote impact investments and to strengthen support for social businesses, etc., there will be consideration of new forms of corporations that play public roles in the private sectors, reforms of existing corporations, and the creation of a Japanese version of the certification system for impact startups that is based on the international certification.
  - In order to support social entrepreneurs (impact startups), the following items will be considered:
    - Incentives in public procurement
    - Inclusion on list of recommended companies provided from the national government to local governments
    - Matching with local governments
    - Support measures for investment
    - Utilization of the hometown tax payments (*furusato nozei*) and the corporate version of the hometown tax payments
    - Utilization of dormant deposits
    - Promotion of Pay for Success (Social Impact Bonds, etc.) by national and local governments
    - Support by investment funds
  - Basic guidelines for expanding impact investment will be compiled, and the spread of impact investment will be promoted.
- (24) Attract overseas startups and strengthen the overseas expansion of domestic startups
- In addition to promoting the dissemination of information related to Japanese startups and support systems to overseas venture capital firms, startups, and entrepreneurs, business matching will also be strengthened. The Council for Promotion of Foreign Direct Investment in Japan will also position startups as a priority area in the new action plan that will be formulated around spring 2023 and will work to enhance related measures.
  - In addition to strengthening networking at global events related to startups, global human resources matching will be promoted along with overseas technology demonstrations and joint research.
- (25) Improve the environment for attracting foreign investors and venture capital firms
- Unlisted shares held by funds are valued at their fair value (market value) overseas, but

in Japan they are often valued at their acquisition cost. In order to enable international comparisons of the performance of Japanese venture capital firms and to promote attracting foreign investors, important matters in auditing venture capital firms and the practical handling in terms of accounting treatment will be clarified, and the introduction of fair value assessments in Japan will be promoted.

- Currently, LPSs are allowed to invest in securities issued by foreign corporations at least 50% of the total capital contribution of all partners only if certified by the Act on Strengthening Industrial Competitiveness. Facilitating overseas investments by venture capital firms, the upper limit of the overseas investment ratio in laws and regulations related to LPS investments will be eliminated. Additionally, clarify the treatment of LPS accounting rules by positioning them in laws and ordinances.
- There are opinions that there are instances in which Japanese contract forms, etc. become barriers to entry for foreign investors, or in which venture capital firm managers and employees may not be able to operate under the same conditions as overseas in terms of taxation and labor laws, etc. As such, while taking into account the actual practices of foreign investors, there will be promotion for the development of a world-class environment in which foreign investors and global top talent from Japan and overseas can easily work in the Japanese startup ecosystem, such as by creating and disseminating model contracts that are in line with global standards.

(26) Enhance startup creation in regional areas

- In addition to the efforts of Startup City Project Japan and J-Startups, national university investments into regional funds in which regional financial institutions participate will be increased, and support for startups by regional universities will be strengthened.
- Proactive support for startups by regional financial institutions will be provided through the promotion of investment in regional startups by regional financial institutions, and the promotion of human resources matching between large companies and mainstay corporations and SMEs including regional startups.
- There will be support for the development of next-generation satellite offices where startups in a variety of fields and the businesses that support them can gather and which the entrepreneurial community (including local universities and financial institutions) can utilize as bases for their activities.
- The use of PFI, etc. (multiple businesses working together to develop facilities,

equipment, and digital infrastructure that can be shared with local social services) will be promoted for mutual assistance-type social businesses.

- There are limited locations where companies in deep tech fields can conduct demonstration experiments while ensuring safety, so, with the cooperation of local governments and of the companies and residents in the surrounding areas, deep tech demonstration sites will be created and expanded.

(27) Support for startup creation in Fukushima

- In the coastal region of Fukushima Prefecture, there will be work on the development of demonstration fields so that robots, drones, and eVTOLs (electric Vertical Take-off and Landing), etc. can be smoothly demonstrated in an environment that is closer to that of actual use.

(28) Utilize startups at Expo 2025 Osaka, Kansai, Japan

- Startup technologies will be actively utilized at the Expo 2025 Osaka, Kansai, Japan, which is called "People's Living Lab."

**6. Third Pillar: Promoting Open Innovation**

- It is not easy for outstanding existing companies to maintain their growth rates. According to discussions on traditional disruptive innovation, companies that have been using old technologies will inevitably lose out to companies that have entered the market using new technologies. However, recent research has confirmed that even companies using older technologies can stay in business if they collaborate with startups to introduce new technologies. Investment in startups is important to promote open innovation by large, existing companies.

- For this reason, the following specific initiatives to promote open innovation will be promoted:

(1) Tax measures, etc. to promote open innovation

- In order to promote M&A, which is an exit strategy for startups to significantly grow under the umbrella of a business company, tax measures, limited to those that will particularly contribute to the growth of startups, under the open innovation tax system will be provided for the acquisition of existing shares that have been issued. In doing so, sufficiently effective tax measures will be adopted.

- Additionally, the preferential R&D tax system will be expanded for when a company is collaborating with startups.



- Measures to promote investment from business companies to venture capital firms will be considered.
- (2) Review public stock offering rules
- Currently, when conducting a public stock offering, the JSDA's self-regulations stipulate that, in principle, the funds must be allocated within one year of when a public offering is made, and this has become an obstacle to M&A of startups by large companies. In the future these self-regulations will be revised, such as by abolishing the deadline for allocating funds, with implementation in mid-FY2023.
- (3) Establishment of voluntary liquidation legislation for business restructuring
- Due to the COVID-19 pandemic, the debt balances of Japanese companies have continued to increase, and more than 30% of companies believe that debt is a holding them back from restructuring their businesses. In European countries there are legal systems for business restructuring where, under the approval of a court and without requiring the consent of all lenders, rights modifications can be made via a majority vote and the business restructured, but this kind of system does not exist in Japan.
  - Therefore, in order to facilitate business restructuring by Japanese companies, a bill to facilitate business restructuring for voluntary liquidation will be submitted to the Diet so that voluntary liquidation (debt liquidation) can be done by a majority vote of creditors with the approval of a court and without seeking the consent of all creditors.
- (4) Smooth labor mobility to startups
- In order to nurture startups, it is important to review Japan's employment practices, such as working styles based on lifetime employment, the prohibition on side jobs and secondary jobs, and the overdependence on simultaneous hiring of new graduates, and to facilitate the movement of human resources.
  - Securing human resources with a Ph.D. is particularly important in deep tech, etc., and a shift away from the overemphasis on hiring new graduates all at once is required.
  - In order to give workers the opportunity to move their labor to startups, by June 2023 the "Guidelines for Facilitating Labor Mobility" will be compiled with the goal of simultaneously resolving the three issues of 1) Facilitating labor mobility without unemployment between companies and industries, 2) Investing in people for reskilling (retraining to move to growth fields), and 3) Against this background, structural wage increases.

- When the guidelines are compiled, sufficient consideration and thought will also be given to the transfer of human resources to startups.
  - In particular, in order to contribute to facilitate labor mobility to startups, labor policies will strengthen the promotion of side jobs and secondary jobs and will support companies that send out personnel for side jobs or accept personnel for side jobs. In addition, support for startups in the form of secondment of human resources from large companies will be strengthened.
  - Consultation with and support by experts in management, legal affairs, and intellectual property, etc. will be strengthened for startup commercialization. Additionally, support will also be strengthened such as by connecting intellectual property strategy experts to startups through venture capital firms.
  - Consideration will be given to how information disclosures and governance should be when a large company provides its own intellectual property rights, human resources, or other management resources to a startup, and the "Intellectual Property and Intangible Assets Governance Guidelines" will be revised within the current fiscal year.
- (5) Consider further accelerating organizational restructuring
- From the perspective of demonstrating the potential of large companies' management resources (human resources, technology, etc.) and creating startups from large companies, it is important to promote spin-offs. Therefore, even if a portion of the equity remains with the company conducting the spin-off, it will not be subject to taxation.
  - In addition, measures to promote bold business restructuring will also be considered.
- (6) Expand the voluntary application of the International Financial Reporting Standards (IFRS) to promote M&A
- Japanese accounting standards stipulate that goodwill is amortized on a regular basis, such as by the straight-line method. There have been comments that this accounting standard has made companies cautious about M&A because the cost of amortizing goodwill will continually put pressure on the acquiring company's earnings. For this reason, companies will be urged to expand the voluntary application of the International Financial Reporting Standards (IFRS), which do not amortize goodwill.
- (7) Collect and organize data to understand the overall picture of the startup ecosystem

- In order to accurately understand the trends around the startup ecosystem and to consider the necessary policies, data will be collected (such as by conducting fact-finding surveys) and organized in a form that enables international comparisons.
- (8) Promote open data on public services and infrastructure
- Compared to large companies, startups have fewer human resources to allocate to information gathering, and it is not easy for them to access information on public services and infrastructure held by the government, which makes it difficult for them to be able to consider the possibility of using their own technologies.
  - National and local governments provide information on the Internet about public data, which startups can utilize.
- (9) Strengthen the networks of large companies and startups
- In order to promote smooth open innovation, awareness will be spread about "guidelines" that should be kept in mind regarding non-disclosure agreements and license agreements, etc. for when startups and business companies, etc. collaborate.
  - Networks will be strengthened through J-Startup and the Japan Open Innovation Council (JOIC).

End of Document

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