

13th May 2015

Policies to promote Japanese financial market

~Actions for Vitalizing Financial and Capital Markets~

Parliamentary Vice-Minister
of Cabinet Office

Takao Ochi



contents

1. Introduction

2. Promote the use of NISA

3. Support developing financial infrastructures in Asia

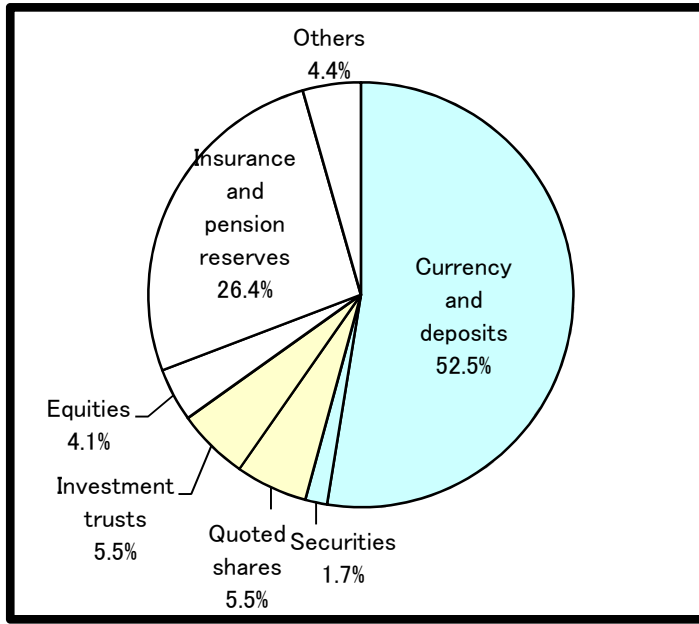
4. Encourage better corporate governance

5. Vitalize financial and capital markets,
Make financial and capital markets more accessible

6. Conclusion

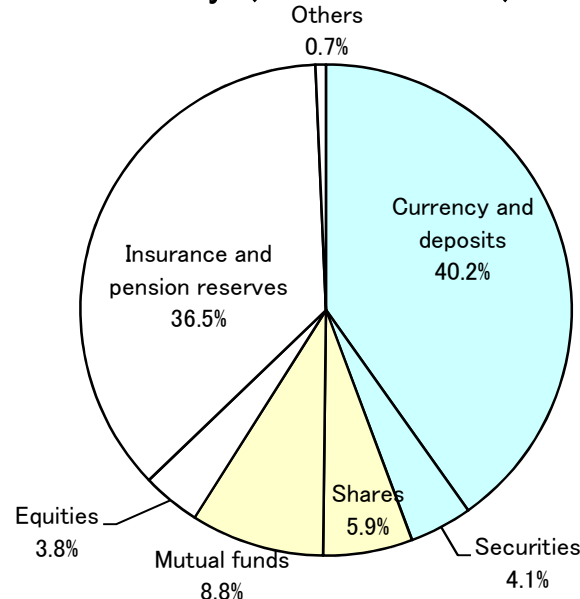
Financial Asset Allocation of Households, etc. (Japan, Germany, US, UK, France)

Japan (End-December 2014, *Preliminary Figures*)



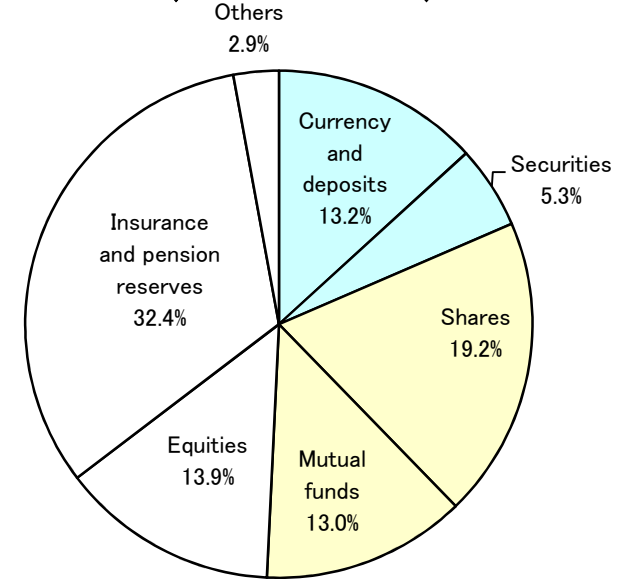
(Total ¥1,694.3 trillion)

Germany (End-March 2014)



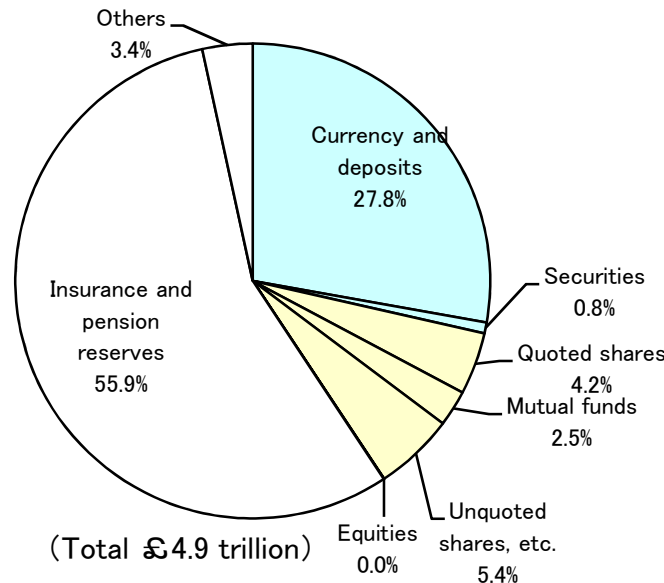
(Total €5.2 trillion)

US (End-March 2014)



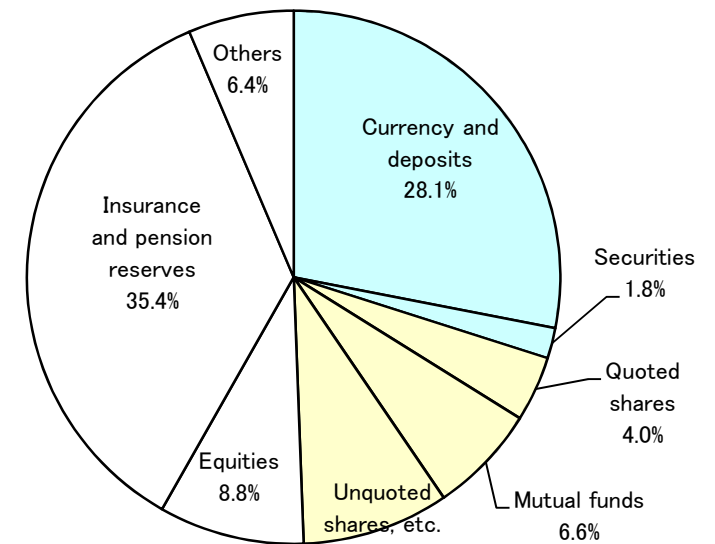
(Total \$65.8 trillion)

UK (End-March 2014)



(Total £4.9 trillion)

France (End-March 2014)



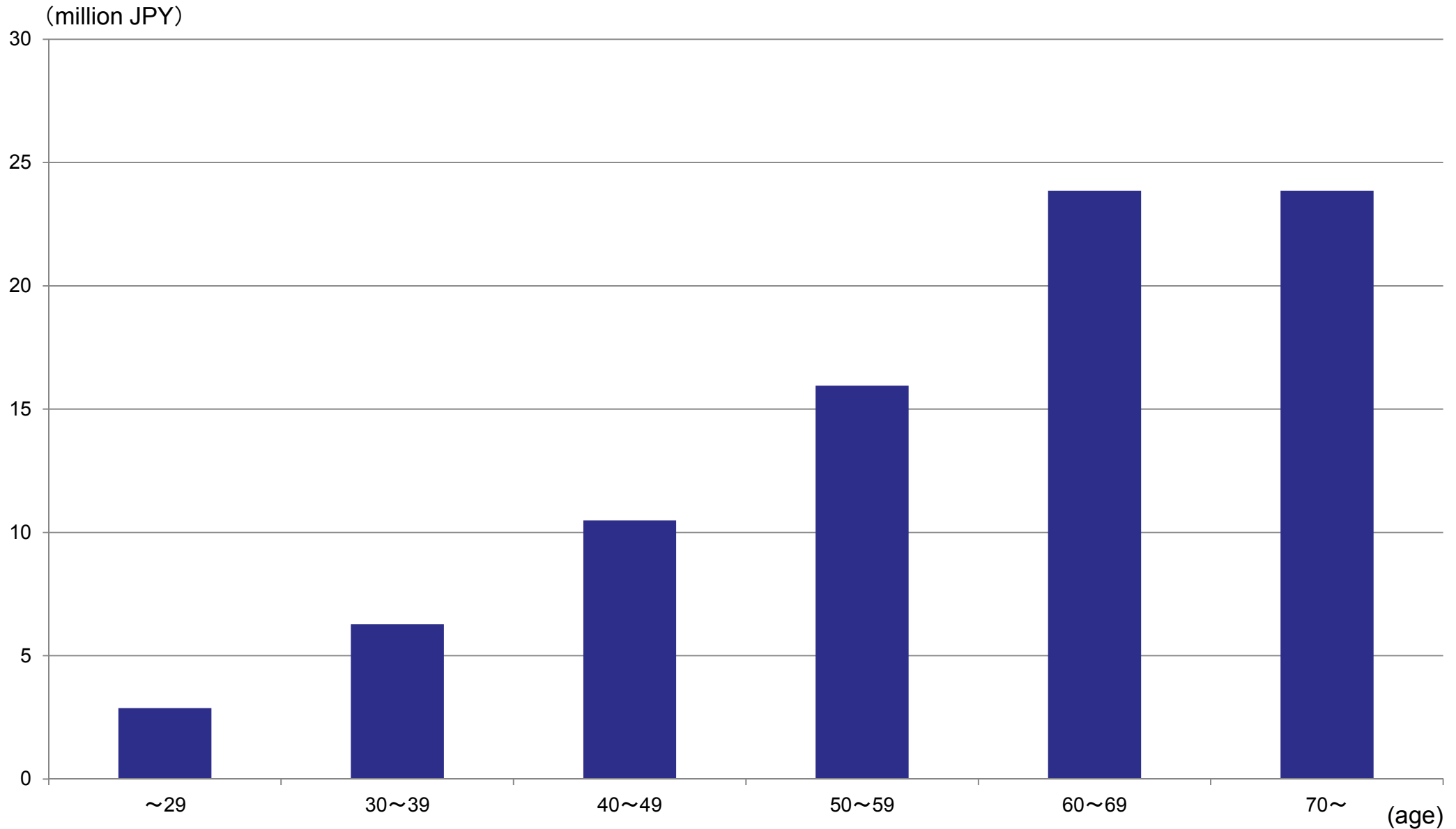
(Total €4.7 trillion)

(Note) Japan - including "households"; other countries - including "households" and "non-profit organizations." "Investment trusts" in Japan are similar to so-called "mutual funds."

(Sources) Japan: BOJ "Flow of Funds", Germany: Deutsche Bundesbank "Financial Accounts for Germany", US: Federal Reserve Board "Flow of Funds Accounts",

UK: Office for National Statistics "United Kingdom Economic Accounts", France: Banque de France "Quarterly financial accounts France"

Household Savings in Japan by age of householders



(notes) 2013 average

Household more than one person

Savings include bank deposits, postal savings, deposits with other financial institutions, insurance premiums, securities such as shares, bonds and investment trusts, and deposits with non financial institutions.

Savings include not only a householder but also other members in the household.

In the case of a sole proprietor, savings may include savings for business purposes.

(source) Ministry of Internal Affairs and Communications
"Family Income and Expenditure Survey"

“Financing by the Nonfinancial Sector” and “Financial assets of financial intermediaries”

Financing by the Nonfinancial Sector via domestic market

	2003FY	2006FY	2009FY	2012FY
Indirect financing via financial institutions	86.6%	82.7%	82.8%	83.3%
Of which: other than Loans【A】	34.7%	32.7%	35.6%	39.0%
Of which: public securities【B】	30.5%	28.4%	31.3%	35.4%
【A】－【B】	4.2%	4.2%	4.3%	3.7%
Direct financing	13.4%	17.3%	17.2%	16.7%

(Note) Figures indicate the stock of fund including General Government
 (Source)BOJ " Channels of Fund-raising by the Nonfinancial Sector "

Financial assets of financial intermediaries

	Japan	United States	Euro area
Loans	39%	29%	29%
Shares and equities, Bonds, Investment trusts	33%	50%	47%
Of which: held by other than Depository corporations	17%	45%	35%
Of which: other than Bonds	5%	27%	22%
Others including currency and deposits	28%	21%	24%

(Notes)Data for Japan and the US are those as of December-end 2014; those for the Euro area are as of September-end 2014.
 (Source)BOJ " Flow of Funds - Overview of Japan, US, and the Euro area - "

- Panel for Vitalizing Financial and Capital Markets was set up in accordance with Action Plan to Implement the Growth Strategy (decision of the Headquarters for Japan's Economic Revitalization on 1 October 2013)
 - ⇒ Several meetings held since 11 November 2013 led to “Recommendations for Vitalizing Financial and Capital Markets” (the first recommendation), released on 13 December
 - ⇒ After follow up and further discussions, “Follow-up and Further Recommendations for Vitalizing Financial and Capital Markets” (the second recommendation), was released on 12 June 2014

(Reference) Action Plan to Implement the Growth Strategy (decision of the Headquarters for Japan's Economic Revitalization on 1 October 2013)

2. Promotion of Private Investment and Industrial Metabolism

Generally mobilize all measures, including tax incentives, budgets, financial support, and system reforms, to improve business environment via Industrial Competitiveness Enhancement Act and revisions to Companies Act to encourage companies to invest their management resources (private investment of ¥70t over three years).

○ Vitalizing Financial and Capital Markets

- “The government will compile, by the end of this year, measures to make Japanese financial and capital markets more attractive, such as measures to divert individuals' financial assets as funds for growth, and measures to realize and utilize the potential of Asian economies.”

[Members]

Takatoshi Ito	Professor, Columbia University Professor, National Graduate Institute for Policy Studies	Atsushi Saito	Director and Representative Executive Officer, Group CEO, Japan Exchange Group, Inc.
Yoichiro Iwama	Chairman, Japan Investment Advisers Association	Akio Mimura	Honorary Chairman and Senior Advisor, Nippon Steel & Sumitomo Metal Corporation, Chairman of the Japan Chamber of Commerce and Industry
Masayuki Oku	Chairman of the Board, Sumitomo Mitsui Financial Group, Inc.	Naoyuki Yoshino	Professor, Graduate School of Economics, Keio University
Yorihiko Kojima	Chairman of the Board, Mitsubishi Corporation		

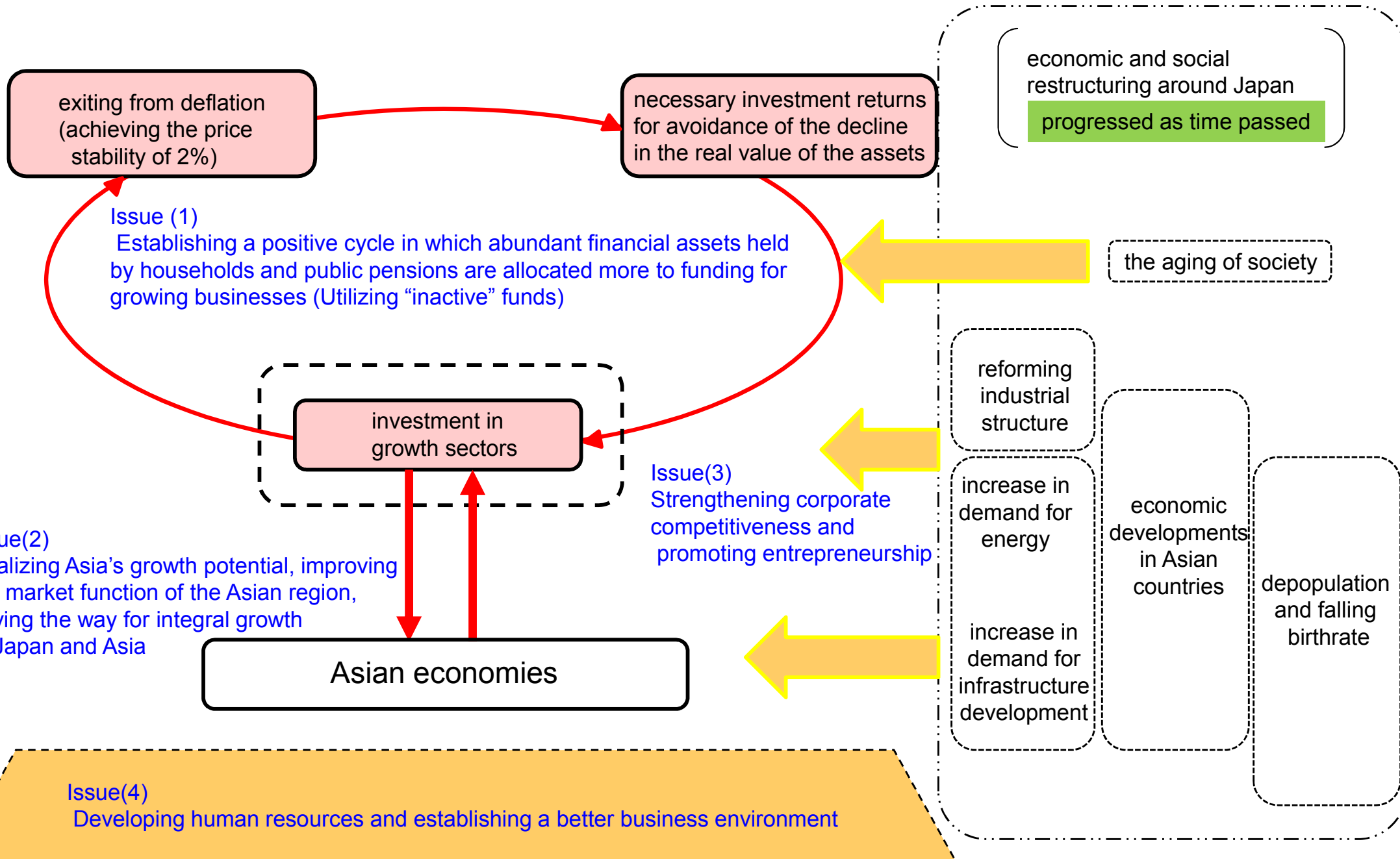
(Secretariat)

Financial Services Agency, Ministry of Finance

(Observers)

Bank of Japan

Four Issues for Vitalizing Financial and Capital Markets



policies to be realized for Vitalizing Financial and Capital Markets (December 2015, June 2014)

Establish a positive cycle in which abundant financial assets held by households and public pensions are allocated more to funding for growing businesses

- an environment to enable asset building in line with individuals' lifecycles under appropriate risk management
- firmly establish place of the Tokyo market as the top-level market in Asia

integral growth of financial and capital markets in Japan and Asia

- realize making it easier for Japanese companies to smoothly access local currencies and manage cash efficiently in Asian countries
- establish markets and infrastructures for cross-border cash and securities transactions and settlements. in Asian region
- make the Tokyo market function as a global market hub for cross-currency transactions and as a foreign and domestic infrastructure-financing market where Asian corporations are financed, highly perform their financial intermediary functions

global companies with growth potential

- realize society where new businesses will evolve and grow actively
- many truly global companies flourish as attractive investment destinations
- select sectors with growth potential and concentrate their resources in such sectors
- secure shareholder returns on equity
- achieve high-quality corporate governance

adequately develop and secure international human resources in terms of both quality and quantity

- realize reforms concerning the underlying business and living environment such as securing and developing highly-skilled human resources and enhancing the attractiveness of various business and living environments surrounding Japan's financial and capital markets

consider and implement additional measures

- review private pensions following the considerations of all pension funds
- promote to provide financial products contributing to medium and long term asset building

seek to achieve an overall improvement in the standard of investment management based on comprehensive enhancements of the environment in which trustees fulfill their duty and truly manage the funds

promote asset building by investment trusts actions for providing financial products contributing to asset building by households in line with lifecycles (further promotion of NISA, improvement of transparency of fund management and performance, enhancement of explanation for sales commission, etc., improvement of disclosure of information about investment performance, etc.)

create a listed infrastructure fund market early, promote healthcare REIT listing, encourage more widespread use of healthcare REIT

- effort to make the Tokyo market function as a global market hub for cross-currency transactions of Japanese Yen, US Dollar, Renminbi, and others
- facilitate corporate funding and lending in Asian countries
- encourage foreign and domestic infrastructure funds to be established and listed on the Tokyo market, etc.

utilize and establish infrastructures for global cash and securities transactions and settlements (efficiently conduct cash and securities management on a global basis, promote actions to establish infrastructures for cross-border securities settlements, etc.)

enhance settlement services in Japan and among corporations

provide support for developing Islamic financing

develop high-developed human resources such as international certified public accountants encourage overseas expansion and networking of personnel with expertise

- additional measures to encourage a more favorable view of the return of profits to shareholders and corporate profitability of global companies, and improve profit-to-turnover ratio and ROE

environmental enhancements for encouragement of better corporate governance (consider the Corporate Governance Code)

review of voluntary liquidation for facilitating business revitalization procedure

promote actions to enhance quality of audit, make the certified public accountant qualification more appealing

launch JBIC Loan Facility Enhancing Global Business Development

- effort to improve international communication and management capability of human resources
- improve the business and living environment to attract high-level financial human resources
- enhance financial and economic education

consider policies utilizing actions of public sector and private sector to broaden the range of global human resources in financial sector

provide correct information to overseas opinion leader develop internationally influential opinion leader

encourage to implement financial and economic education in line with life stages

【 Actions for recommendation in the last year 】

establishing an environment to enable asset building in line with lifecycles (Promote the use of NISAs)

promoting support for developing financial infrastructure in Asian countries (establish the Asian Financial Partnership Center, etc.)

measures of pursuing the supply of risk money (establish crowdfunding, ease burdensome requirements for new listings, etc.)

enhancement of financial and economic education

necessary measures should be taken for GPIF (review of the fund management and governance structures)

facilitating funding in Asian countries (relevant regulations should be revised so that Japanese companies can build optimal cash management systems as a group, local currency-denominated private sector investments and finance by the JICA, etc.)

actions for turnover in companies, strengthening corporate governance (introduction of market indexes which focus on the growth potential of companies, the Stewardship Code and outside directors, etc.)

providing a one-stop service in English for finance-related administrative procedures

fostering an infrastructure financing market (the Tokyo Stock Exchange create a listed infrastructure fund market, etc.)

strengthening the functions of the Tokyo markets (vitalize the Tokyo Pro-Bond Market, expanding the scope of JBIC's guarantees framework for samurai bonds.)

translating financial-related laws, ordinances, and guidelines into English

Industry Revitalization Plan Accelerating structural reform program (Vitalizing industries)

◆ Drafting the Corporate Governance Code, etc.

- a council of experts of which the Tokyo Stock Exchange and the Financial Services Agency will jointly act as a secretariat, will aim to prepare key elements of the Code by around this autumn so that the Tokyo Stock Exchange can newly draft the Code in time for the season of general shareholders' meetings in (June,) 2015.

Industry Revitalization Plan Vitalizing financial and capital markets, etc.

◆ Securing Japan's status as an international financial center and realizing Asia's growth potential

- improve financial infrastructure such as securities settlement systems and other infrastructure, and promote the standardization of bond issuance documentation and procedures with ASEAN countries
- introduce more convenient information services in English regarding financial administration
- strengthen its support for financial institutions' activities in Asia
- promote environmental enhancements aimed at the origination of infrastructure funds and healthcare REITs
- create a comprehensive exchange at the first possible opportunity

◆ Enhancing settlement systems

- promote enhancing settlement systems, such as real-time bank transfers

◆ Establishment of a cycle in which abundant household assets flow toward growth money

- promote the use of NISAs by expanding the range of investors through implementing policies that reflect the needs of investors, and improving financial education
- promote efforts to increase transparency in the management of investment funds and to offer investment products that reflect the investor's interests first
- reach a conclusion within 2014 regarding comprehensive enhancements of the environment in which trustees fulfill their duty and truly manage the funds by reflecting the investor's interests

Industry Revitalization Plan Vitalizing financial and capital markets, etc.

- ◆ **Promotion of an increase in the number of companies voluntarily adopting the IFRS**
 - strive to increase the number of companies voluntarily adopting the IFRS
 - publish “the IFRS Adoption Report (tentative name)”, to serve as a useful reference for companies considering adopting the IFRS
- ◆ **Initiatives aimed at enhancing the competitiveness of companies**
 - encourage more widespread use of the JPX–Nikkei Index 400 and seek to ensure that it becomes firmly established (proactive initiatives to be taken in this area will include support for the prompt listing of futures)
 - improve the audit quality and promote measures to enhance the attractiveness of qualified CPAs

Industry Revitalization Plan

Regional revitalization / Reform among mid–ranking companies, SMEs and micro enterprises

- ◆ **Promotion of loans based on feasibility assessments by regional financial institutions, etc.**
 - to provide financing taking well into considerations the growth potential of the debtor’s business as well as to cooperate with relevant stakeholders to improve the performance, productivity, and sustainability of businesses by financial institutions, appropriately supervise and support financial institutions pursuant to the Supervisory Policies and the Financial Monitoring Policy from such perspectives.
 - encourage regional financial institutions to make use of the “Guidelines for personal Guarantee Provided by Business Owners”
 - encourage regional financial institutions, etc. to pursue the utilization of specialist personnel in the management of regional companies via the Regional Economy Vitalization Corporation of Japan (REVIC)
 - encourage REVIC to establish a fund and supply money to support core regional companies in achieving management improvements without delay

* In Short- to Mid-term Progress Schedule, about support for developing financial infrastructures in Asia, by specifying needs for new projects based on bilateral discussions, utilizing the Asian Financial Partnership Center, fostering cooperation between the FSA and relevant authorities and improving the market functions of the whole Asian region, growth alongside Asia by strengthening cooperation between Japanese market and Asian market is achieved

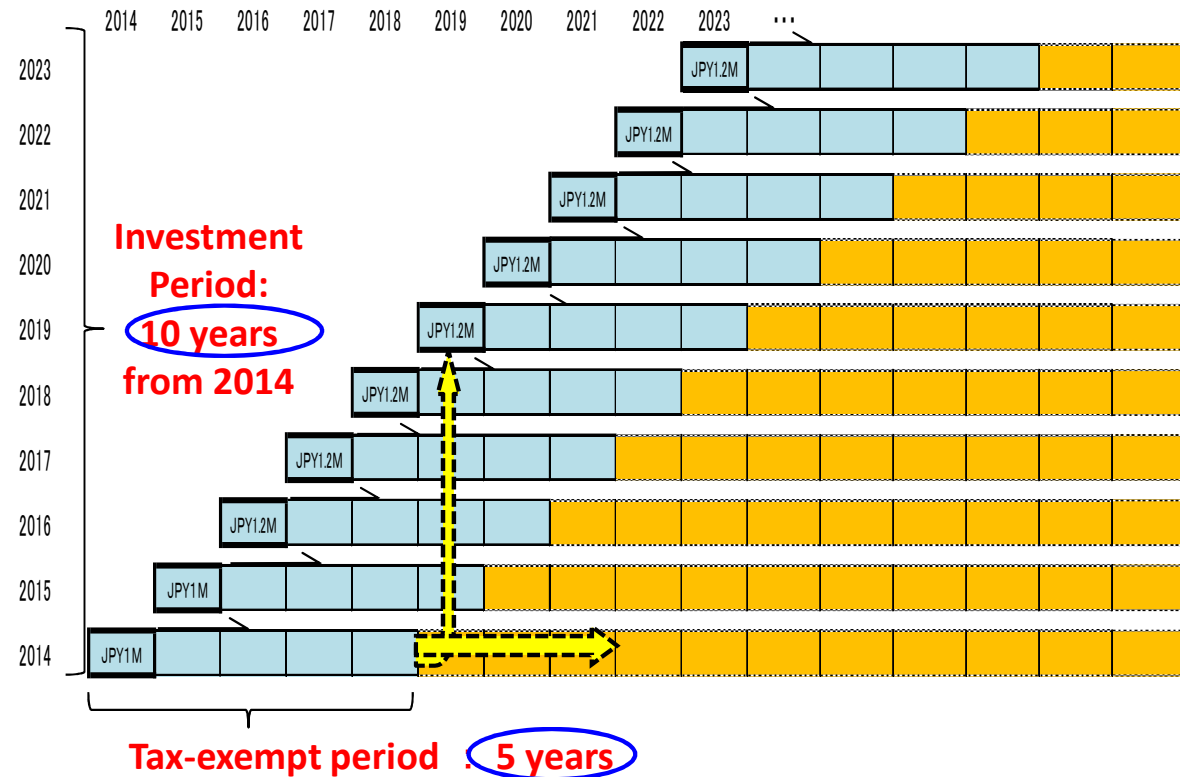
contents

1. Introduction
2. Promote the use of NISA
3. Support developing financial infrastructures in Asia
4. Encourage better corporate governance
5. Vitalize financial and capital markets,
Make financial and capital markets more accessible
6. Conclusion

NISA (Nippon Individual Savings Account)

- 【Purpose】**
- ① Support of asset formation for households
 - ② Supply of risk money for economic growth

Item	Outline
Scope	Dividends and capital gains derived from listed shares and publicly-offered stock investment funds in NISA account
Annual investment limit	JPY 1 million * JPY 1.2 million from 2016
Investment period	10 years (2014 ~ 2023)
Tax-exempt period	5 years
Profit/loss offset	Tax losses generated in NISA accounts are not available

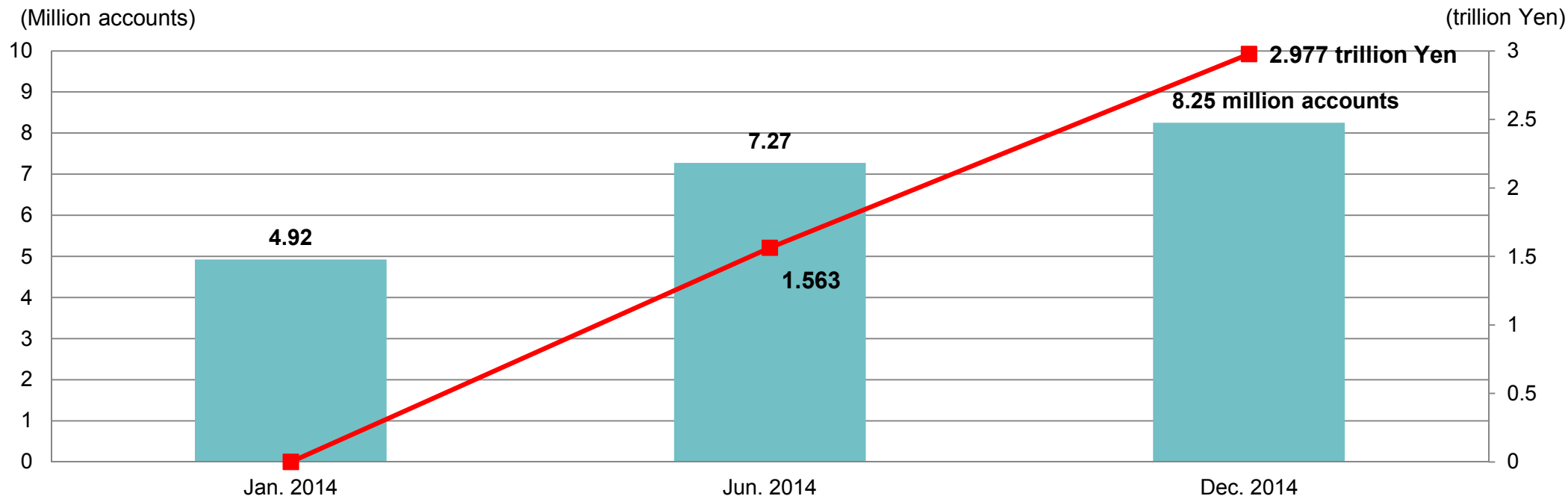


* Income/capital gain from NISA is exempted from taxation for a maximum of 5 years.

* After the 5-year exemption period, investors can:

- > continue tax exemption through newly available investment limit; or
- > transfer securities into an ordinary account.

The number of NISA accounts and total amounts subscribed



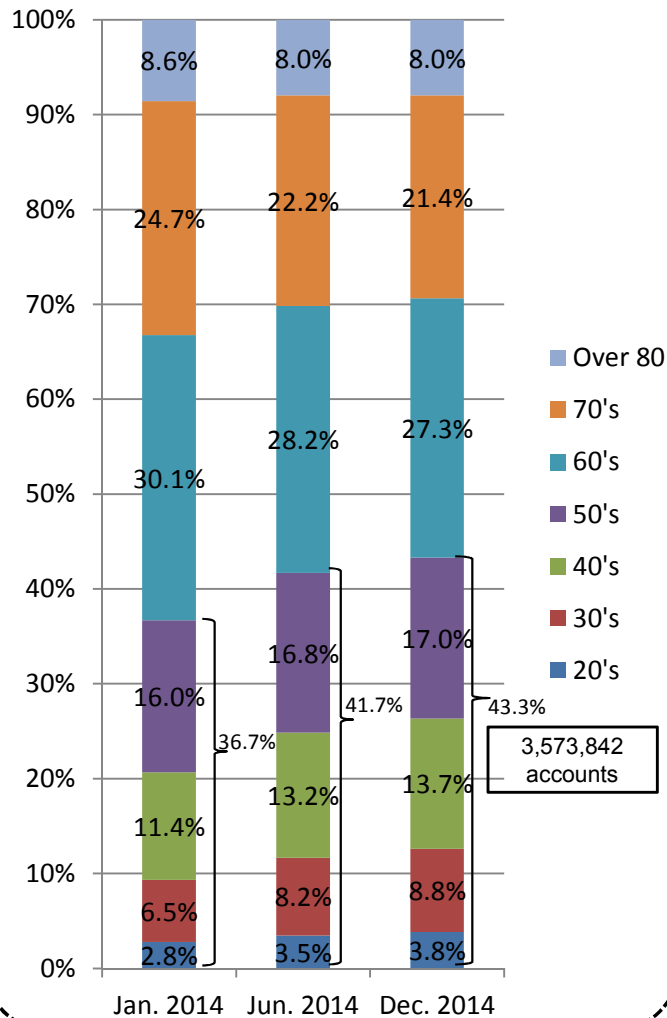
- the number of NISA accounts: **8,253,799** (End-December 2014)
 - approximately 3.33 million accounts (67.6%) were increased from January to End-December
- total amounts subscribed in NISA accounts: **2,976,969** million JPY (End-December 2014)
 - approximately 1,414 billion JPY (90.5%) was increased from End-June to End-December
 - of which:

listed shares	970,550million JPY (32.6%)
investment trusts	1,943,984million JPY (65.3%)
ETF	34,332million JPY (1.2%)
REIT	28,104million JPY (0.9%)

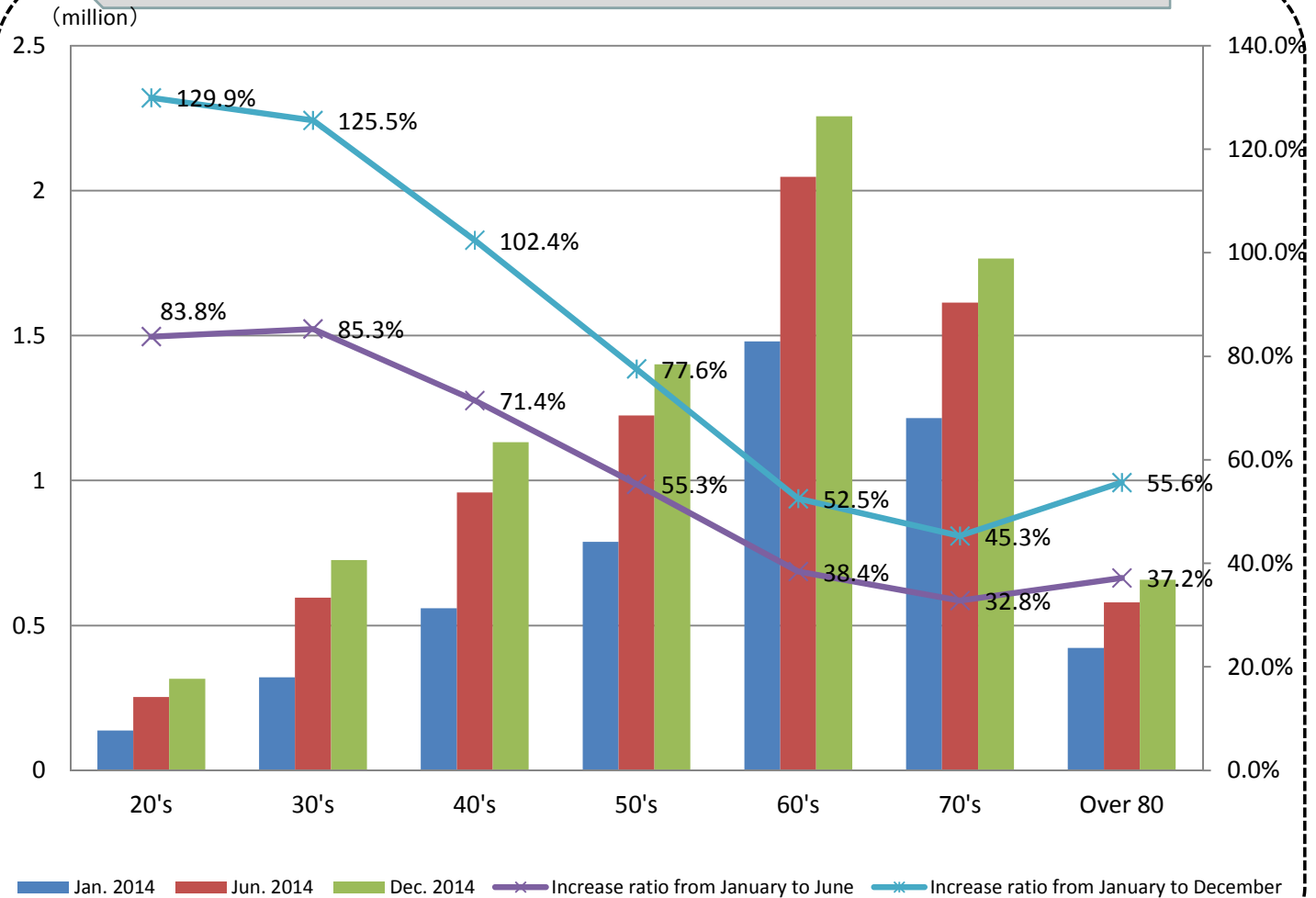
Changes in the number of accounts by age (End-December 2014)

- The proportion of 20's~50's in NISA accounts gradually increased.
- Increase rate of young segment is larger than those of elder segment.
The number of NISA accounts of 20's~40's was doubled in a year.

Changes in the accounts opening ratio by age



Comparison of increase ratio of the accounts opening by age



Overview:

① Introduction of "Junior NISA"

- Introducing a "Junior NISA" to enable minors aged between 0 and 19 to open a specially-designed NISA account with an annual investment limit of 800,000 yen

② Raising the upper limit on annual investment of NISA accounts

- Raising the annual investment limit from 1 million yen at present to 1.2 million yen

③ Improving NISA's convenience of use

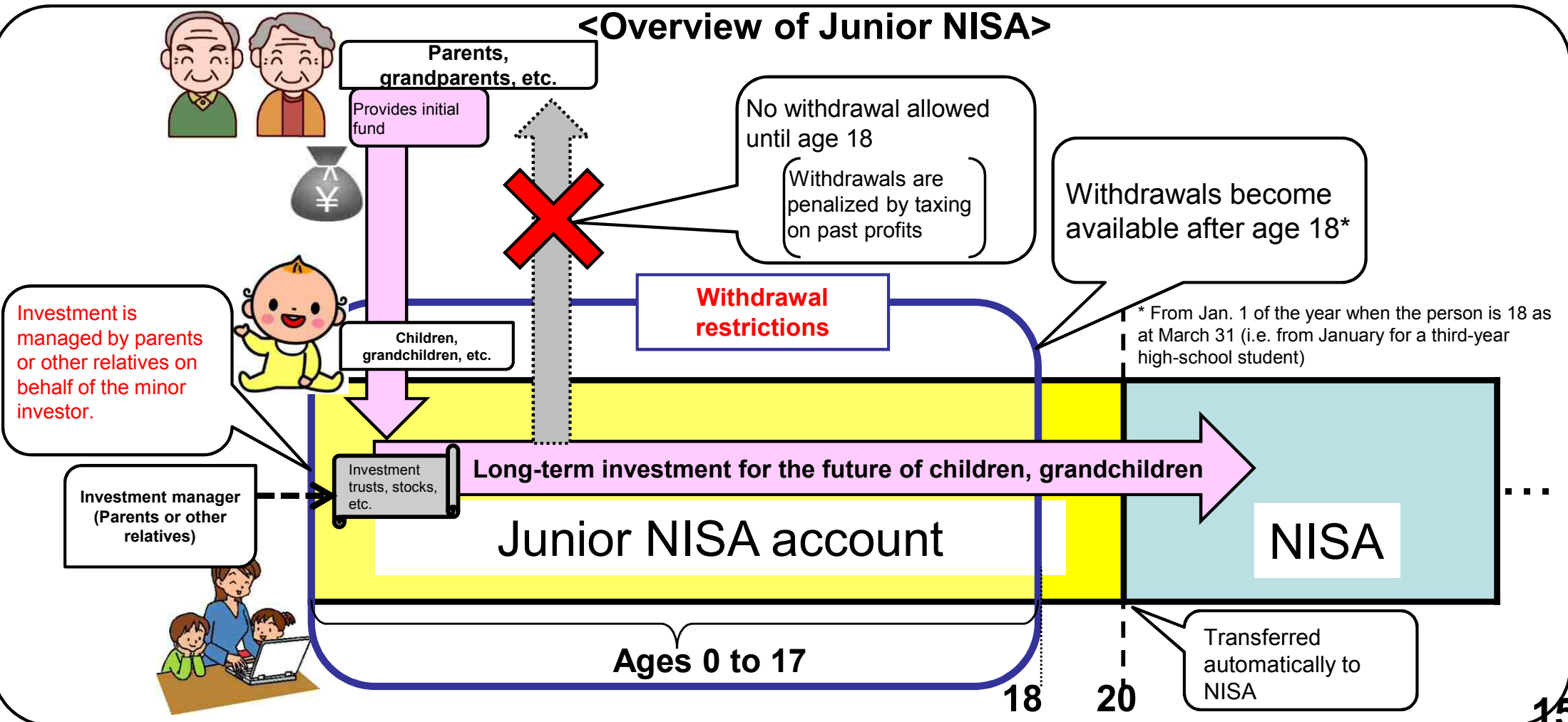
- Simplifying procedures for opening a NISA account
 - Discussions will continue on simplifying account-opening procedures by using "My Number", with the goal of introducing it for NISA accounts opened in 2018 and beyond.
- Speeding up procedures for opening a NISA account

Introduction of "Junior NISA" – ①

Issues: NISA is used mainly by experienced investors who are middle-aged or elderly. The scheme needs to be revised to expand the range of investors to encourage younger generations to invest in stocks or funds.

Overview: Introduction of "Junior NISA"

- Introducing a "Junior NISA" to enable minors aged between 0 and 19 to open a specially-designed NISA account



Introduction of “Junior NISA” – ②

Goal of scheme:

To expand the range of investors to include younger generations, to achieve the dual goals of supporting stable asset formation for households and expanding the supply of the growth capital

Expected impacts: ① Expansion of the range of investors to include younger generations

② Channeling enormous financial assets concentrated among the elderly into the growth capital

③ Growth in long-term investment

Item	Outline
Eligible persons	Residents of Japan aged 0 to 19, etc.
Upper limit on annual investment	800,000 yen
Assets eligible for tax exemption	Listed stocks, publicly-offered stock investment funds, etc. (* Same as NISA)
Investment period	Between April 2016 and end of December 2023 (* Timing of expiration is the same as that of NISA.) * Person who opened the account before 2023 can use it tax-free until reaching the age of 20.
Tax-exempt period	Maximum five years from the initial year of investment (* Same as NISA)
How to open an account	My Number is required to be submitted when applying to open an account (no certificate of residence required)
Management of investment	<ul style="list-style-type: none"> · In principle, investment is managed by parents or other relatives on behalf of the minor investor. · Withdrawal is restricted until the holder turns 18 years of age. <p>* Tax-exempt withdrawal is allowed in cases of emergency such as natural disasters.</p>

contents

1. Introduction
2. Promote the use of NISA
3. Support developing financial infrastructures in Asia
4. Encourage better corporate governance
5. Vitalize financial and capital markets,
Make financial and capital markets more accessible
6. Conclusion

“Japan Revitalization Strategy” - *Japan is Back* - (June 14, 2013)

3. Strategy of Global Outreach

2. Strategic initiatives for obtaining overseas markets

(2) Intensive support to potential small and medium-sized enterprises (SMEs)

○ Supporting development of financial infrastructures in Asia

- The government will promote technical support to Asian countries in developing financial infrastructures (legal and settlement systems, etc.) in order to ensure smooth funding for SMEs' overseas operations.

“Japan Revitalization Strategy” *Revised in 2014 - Japan's challenge for the future* - (June 24, 2014)

(3) Specific new measures to be taken

i) Vitalizing financial and capital markets

1) Securing Japan's status as an international financial center and realizing Asia's growth potential

- To secure stable financing of local currencies and smooth payment settlement for Japanese companies that are extending their businesses to Asia, the Government will promote cross-border collateral arrangements and cross currency repos using Japanese Government Securities as collateral, and interconnection of ATM systems within Asia by private sector companies. In addition, to develop the business environment for Japanese companies and financial institutions operating in other Asian countries, the Government will strengthen its support for their activities in Asia.

Basic Principles on Strategic Financial Sector Assistance for Asian Countries

Status of Development of Fin. Infrastructure

Developing (e.g. Myanmar, Vietnam, Mongolia)
Fairly Developed (e.g. Indonesia, Thailand)
Others (Advanced)

Stance of Assistance

Japan's initiative
in agenda setting

Identifying
Issues of
mutual interest,
Sharing
experiences

Technical Assistance Menu

Assistance in Developing Institutional Base

- Introducing laws/regulations
- Capacity Building on Supervision/Inspection
- Facilitating Capital Procurement by SMEs

Specific Assistance for Financial Infrastructure

- IT introduction to Settlement System
- Establishing Stock Exchange
- Establishing Non-life Insurance Rating Organization

Sharing Experiences

- Fin. Regulatory Organization
- Disaster Response
- Setting Int'l Standards

Signing of Memorandum of Understanding/ Exchange of Letters between Asian Countries and JFSA

Mongolia

Banking	Bank of Mongolia	Jun. 2014
Securities	Financial Regulatory Commission	Jan. 2014
Insurance		

Viet Nam

Banking	State Bank of Viet Nam	Jun. 2014
Securities	State Securities Commission	Mar. 2014
Insurance	Insurance Supervisory Authority	Jun. 2014

Myanmar

Securities	Ministry of Finance	Jan. 2014
Insurance		

Philippines

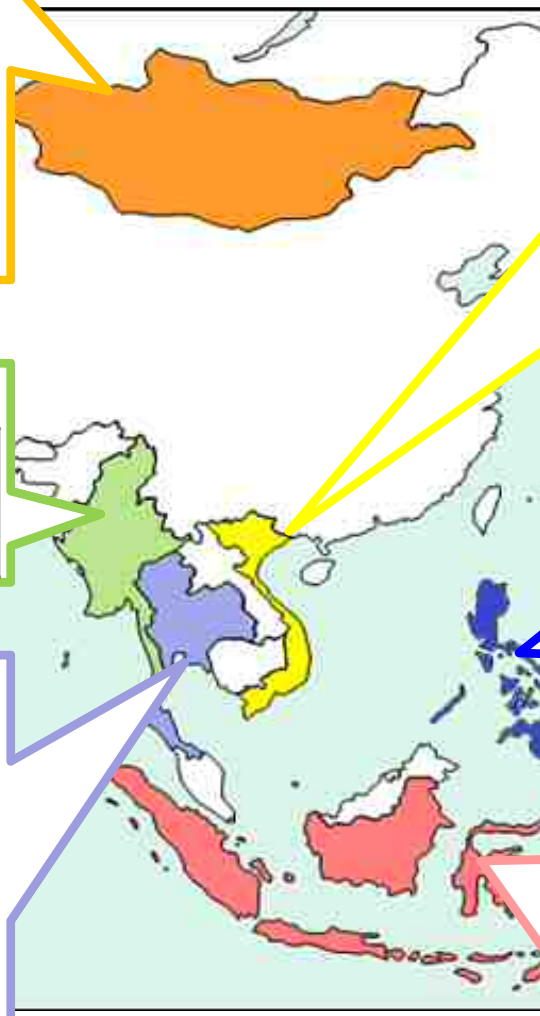
Banking	Bangko Sentral ng Pilipinas	Dec. 2014
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Thailand

Banking	Bank of Thailand	May. 2014
Securities	Securities and Exchange Commission	Feb. 2014
Insurance	Office of Insurance Commission	Aug. 2014
Bank, Securities, Insurance	Ministry of Finance	Jul. 2014

Indonesia

Banking	Financial Services Authority of Indonesia (OJK)	Jun. 2014
Securities		Oct. 2013
Insurance		



[Main Objectives]

- To address the issues related to financial and capital markets in Asia and to utilize the outcomes for financial infrastructure development in the region
- To develop the business environment for Japanese companies and financial institutions operating in other Asian countries through enhanced cooperative relationships with Asian financial authorities
- To effectively express a stronger Asian voice towards global financial regulatory reforms

[Background and Activities]

- The AFPAC was established at the Financial Services Agency in April 2014. From July 2014, it started to invite government officials from Asian financial authorities as visiting fellows.
- The AFPAC offers training programs tailored to the areas of interest of each visiting fellow.
- The outcomes of the programs are expected to be disseminated at seminars/symposiums and to be utilized for financial infrastructure development in Asia and contribution towards global financial regulatory reforms.
- Through offering the programs, the AFPAC aims to build stronger networks with Asian financial authorities.

[Participants Records]

- Since July 2014, 15 officials have completed the training program at the AFPAC. As of May 2015, 7 officials are attending the program.
- First Group of Visiting Fellows: July 29, 2014 – November 28, 2014
State Bank of Vietnam (1) and Financial Regulatory Commission of Mongolia (2)
- Second Group of Visiting Fellows: October 21, 2014 - (i) November 28, 2014, (ii) January 14, 2015, (iii) February 6, 2015
*(i) Bank of Thailand (2),
(ii) State Securities Exchange Commission of Vietnam (1),
(iii) Bank of Mongolia (1), Myanmar Economic Bank (1), and Securities Exchange Commission of Thailand (1)*
- Third Group of Visiting Fellows: (iv) March 3, 2015, (v) April 13, 2015 –
*(iv) National Bank of Cambodia (1), State Bank of Vietnam (1), Financial Regulatory Commission of Mongolia (2),
Ministry of Finance of Vietnam (2), and
(v) Securities and Exchange Commission of Thailand (1)*
- Student Internships: *Bank of Thailand (2) and Ministry of Finance of Vietnam (1)*
- Short-term training: *State Bank of Vietnam (3)*

[Examples of Training Programs]

- In the first month, fellows attend basic lectures on the JFSA's organizational structure, financial regulatory framework and supervisory practices. They also visit other relevant organizations.
- Following the above, they undertake customized sessions focusing on respective areas of interest.

(Examples of Themes)

- Supervisory and inspection practices
- Market surveillance and investigation into fraudulent trading
- Structure of financial markets infrastructure and overview of the activities of stock exchanges, clearing and settlement houses and securities depository center

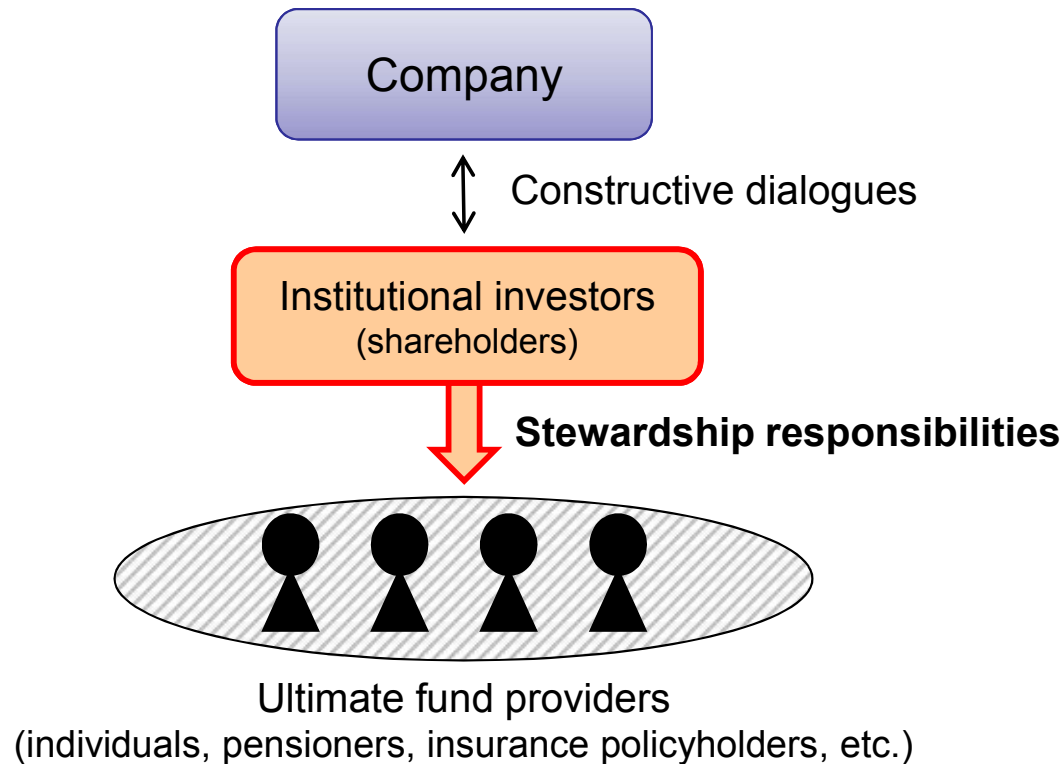
contents

1. Introduction
2. Promote the use of NISA
3. Support developing financial infrastructures in Asia
4. Encourage better corporate governance
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Make financial and capital markets more accessible
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Outline of the Stewardship Code & Corporate Governance Code

Stewardship Code

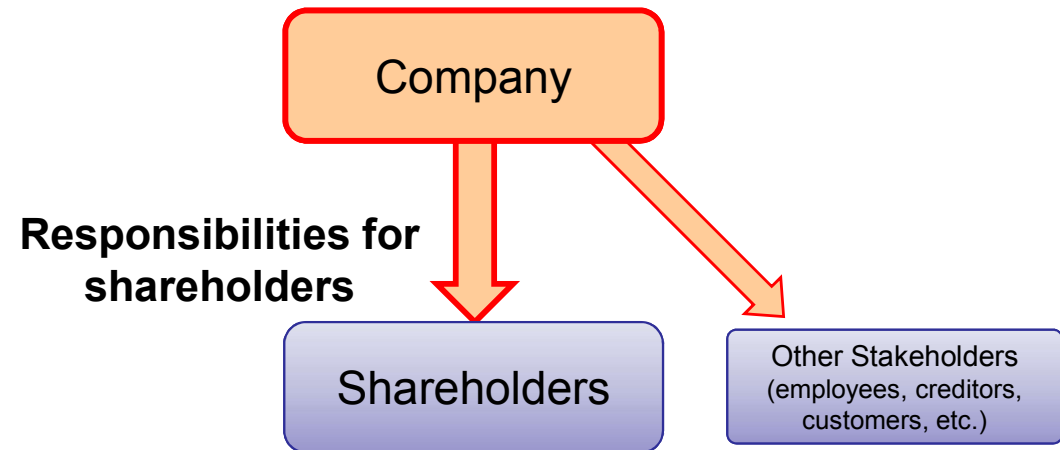
- ◆ Principles of good practices for institutional investors
- ◆ Responsibilities for the ultimate fund providers (thruster)



Japan's Stewardship Code was finalized in February 2014 under the Japan Revitalization Strategy (Cabinet decision in June 2013).

Corporate Governance Code

- ◆ Principles of good practices for companies
- ◆ Responsibilities for shareholders and other stakeholders



Japan's Corporate Governance Code [Final Proposal] was finalized in March 2015 under the Japan Revitalization Strategy [Revised in 2014] (Cabinet decision in June 2014).

Outline of Japan's Stewardship Code

Background

- In accordance with the Japan Revitalization Strategy (Cabinet decision in June 2013), the Council of Experts was established, with the FSA serving as the secretariat. The Council met six times and formulated the Japan's Stewardship Code taking public comments from home and abroad into account.

The Framework of the Code

- The Code allows each institutional investor to apply the code in a manner suited to its own specific conditions and situations (as in the UK code).
 - Expects each institutional investors to decide whether to accept the Code or not.
 - The FSA will **publish the list of signatories, and thereby encourage more institutional investors to accept the code.**
 - ※ The list of signatories will be renewed in every 3 months.
(The fourth list was published on March 12, 2015. 184 institutional investors have signed up to the Code.)
 - Adopts a “**principles-based approach**” instead of a “rule-based approach”.
 - Adopts the “**comply or explain**” (comply with the principles or explain why they are not complied with) approach as opposed to mandatory requirements like laws/regulations.

Principles

◆ Principles of the Code

Institutional investors should...

1. disclose a clear **stewardship policy**,
2. properly manage **conflicts of interest**,
3. **monitor** investee companies,
4. arrive at an understanding in common with investee companies and solve problems through **engagement**,
5. have a clear **voting policy** and disclose voting activity,
6. **report** to clients/beneficiaries, and
7. have **skills & resources necessary for engagement.**

《Features of the “Japan’s” Code》

- Emphasizes the importance of improving and fostering the investee companies' corporate value, capital efficiency and “**sustainable growth**” from a medium- to long-term perspective.
- Promotes “**constructive engagement**” between institutional investors and investee companies.

Acceptance of Japan's Stewardship Code

On 12 March 2015, the FSA published the fourth list of institutional investors adopting the Code by the end of February.

Institutional investors that have signed up to the Code		: 184
Breakdown	< By category >	
	Trust banks (Shintaku Ginko)	: 6
	Investment managers (Toshishintaku/Toshikomom Gaisha)	: 129
	Life insurance companies	: 17
	Non-life insurance companies	: 4
	Pension funds	: 21
	Others (Service providers, etc.)	: 7
	< Japanese/foreign >	
	Japanese institutional investors	: 107
	Foreign institutional investors	: 77
(of which those who have overseas headquarters	: 30)	

Formulation of Japan's Corporate Governance Code

Japan Revitalization Strategy (Revised in 2014) –Japan's challenge for the future- (Excerpts)

Cabinet Decision on June 24th, 2014

Section 1

IV. Major Policy Measures in the Revised Strategy

1. Restoring Japan's Earning Power

(1) Companies to Change

1) Enhancing corporate governance

○ Drafting the Corporate Governance Code

- The Tokyo Stock Exchange will draft the Corporate Governance Code to encourage companies' initiatives to attain sustainable growth. Publicly listed companies are asked either to comply with the principles or explain why they are not complied with.

[Drafting in time for the season of general shareholders' meetings next year]

Section 2 Three Action Plans

I. Industry Revitalization Plan

1. Accelerating structural reform program (Vitalizing industries)

(3) Specific new measures to be taken

i) Enhancing corporate governance, promoting the supply of risk money and improving the investment chain

1) Drafting the Corporate Governance Code, etc.

Corporate governance is the system which supports companies making timely entrepreneurial decisions with transparency and integrity and with due regards to the views of shareholders as well as customers, employees, local communities and other stakeholders. Principles outlining key elements of good governance should help companies' initiatives towards sustainable growth of their corporate values and would thereby contribute to the prosperity of the companies themselves, investors and, ultimately, the whole economy.

The "Corporate Governance Code" will be drafted, specifying the principles of corporate governance to be applied by listed companies. The Code will be drafted by referring to, among other rules, the Tokyo Stock Exchange's existing rules and guidelines regarding corporate governance, and the OECD Principles of Corporate Governance. The Code will, while reflecting the circumstances of Japanese companies, aim to attain international reputation. To that end, **a council of experts of which the Tokyo Stock Exchange and the Financial Services Agency will jointly act as a secretariat, will aim to prepare key elements of the Code by around this autumn so that the Tokyo Stock Exchange can newly draft the Code in time for the season of general shareholders' meetings in (June,) 2015.** Effectiveness of the new Code shall be ensured through "comply or explain" approach. **The listing rules of Tokyo Stock Exchange will require listed companies to either comply with the principles contained in the Code or explain the reason why they did not comply with such principles.**

Outline of Japan's Corporate Governance Code

- Promoting “**growth-oriented corporate governance**” which stimulates healthy entrepreneurship
- Enhancing corporate value through **cooperation with a variety of stakeholders including shareholders**
- **Facilitating constructive dialogue between companies and their shareholders**

The Code adopts the “**comply or explain**” approach (either comply with a principle or, if not, explain the reasons why not to do so).

<Securing the Rights and Equal Treatment of Shareholders>

Companies should fully secure **the rights and equal treatment** of shareholders.

- **Securing the rights of shareholders effectively**
 - ⇒ Measures for giving shareholders sufficient time to consider the agenda of general shareholder meetings
(e.g. **Early delivery of convening notices of GSMs**)
- **Explanation of cross-shareholdings**
 - ⇒ Disclosing a policy of cross-shareholdings
Explanation of its objective and rationale based on **examination of economic rationale**
Establishment & disclosure of standards of the voting rights

<Cooperation with Stakeholders Other Than Shareholders>

Companies should **cooperate with stakeholders including employees, customers, business partners and local communities.**

- **Actions on sustainability issues** including ESG matters
- Ensuring **diversity** including **active participation of women**

<Ensuring Appropriate Information Disclosure and Transparency>

Companies should appropriately conduct statutory disclosure and also provide **accurate & useful information** beyond that required by law.

- **Proactive information disclosure** including business principles & strategies

<Responsibilities of the Board>

To promote sustainable corporate growth and enhance earnings power & capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad **direction of corporate strategy**
- (2) Establishing an environment where **appropriate risk-taking** by the senior management is supported
- (3) Carrying out **effective oversight of directors & the management**

- ◎ The management may become risk-avoiding due to concerns about unexpected losses resulting from its business judgment.
 - ⇒ **The Code contributes to secure the reasonableness of management's decision-making processes and supports appropriate risk-taking by companies.**
- **Effective use of independent directors**
 - ⇒ Appointment of at least 2 independent directors who are able to contribute constructive discussions
 - ※ **Disclosing a roadmap for appointment of at least 1/3 of directors as independent directors** if the company believes it necessary to do so in its own judgment

<Dialogue with Shareholders>

Companies should engage in **constructive dialogue** with shareholders in order to contribute to sustainable growth.

- **Establishment of organizational structures** for promoting constructive dialogue with shareholders

contents

1. Introduction
2. Promote the use of NISA
3. Support developing financial infrastructures in Asia
4. Encourage better corporate governance
5. Vitalize financial and capital markets,
Make financial and capital markets more
accessible
6. Conclusion

Japan Revitalization Strategy Revised in 2014 (Growth Strategy)

Three Action Plans

➤ Industry Revitalization Plan

- Further strengthening Japan's international competitiveness as a business hub
Stimulating financial and capital markets / Management of public and quasi-public funds, etc

- Specific new measures to be taken

- Vitalizing financial and capital markets

Securing Japan's status as an international financial center and realizing Asia's growth potential
To secure Japan's status as an international financial center by improving the environment of the Tokyo market in obtaining other Asian currency funding and enhancing cross-border transactions, the Government **will improve financial infrastructure such as securities settlement systems and other infrastructure**, and promote the standardization of bond issuance documentation and procedures with ASEAN countries. Also, in order to make Japan's financial and capital markets more accessible, the Government will **introduce more convenient information services in English regarding financial administration**.

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To meet diverse needs for funding and management both within Japan and overseas, the Government will implement the institutional measures required to establish a listed infrastructure fund market on the Tokyo Stock Exchange by the end of 2014, and will also promote **environmental enhancements aimed at the origination of infrastructure funds and healthcare REITs**.

.....

Japan Revitalization Strategy Revised in 2014 (Growth Strategy)

Three Action Plans

➤ Industry Revitalization Plan

- Accelerating structural reform program (Vitalizing industries)

- Specific new measures to be taken

- Support for ventures businesses

It is necessary to implement more effective, unconventional measures to support venture businesses.

Involving large companies through a Venture Business Creation Council (tentative name)

The following measures will be implemented in order to promote not only conventional measures, such as those focusing on venture businesses themselves and support for university-launched ventures, but also measures to encourage the Japanese economy as a whole, including existing businesses, to take on bold challenges:

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Study models of supporting the startup of venture businesses, etc. using local resources which **utilize crowdfunding**.

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The Collapse of Lehman Brothers (Sep. 2008)
global financial crisis



G20 Summit (Washington, Nov. 2008 ~)
financial regulatory reform to prevent financial crises

1. G20 Leaders' Communiqué, Brisbane Summit (Nov. 2014)

“We have delivered key aspects of the core commitments we made in response to the financial crisis”

“The task now is to finalise remaining elements of our policy framework and fully implement agreed financial regulatory reforms, while remaining alert to new risks”

2. Main Work

- ① Building resilient financial institutions (Basel III)
- ② Ending Too Big To Fail (Systemically Important Financial Institutions)
- ③ Addressing the risks from shadow banking
- ④ Making derivatives markets safer

Background

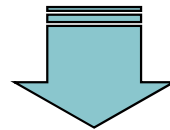
○ Sep. 2009 : G20 Pittsburgh Summit Leaders' Statement

- ① All standardized OTC derivative contracts
 - a) should be traded on exchanges or electronic trading platforms, where appropriate; and
 - b) cleared through central counterparties (CCP)
- ② OTC derivative contracts should be reported to trade repositories (TR)

We ask the FSB and its relevant members to assess regularly implementation and whether it is sufficient to improve transparency in the derivatives markets, mitigate systemic risk, and protect against market abuse.

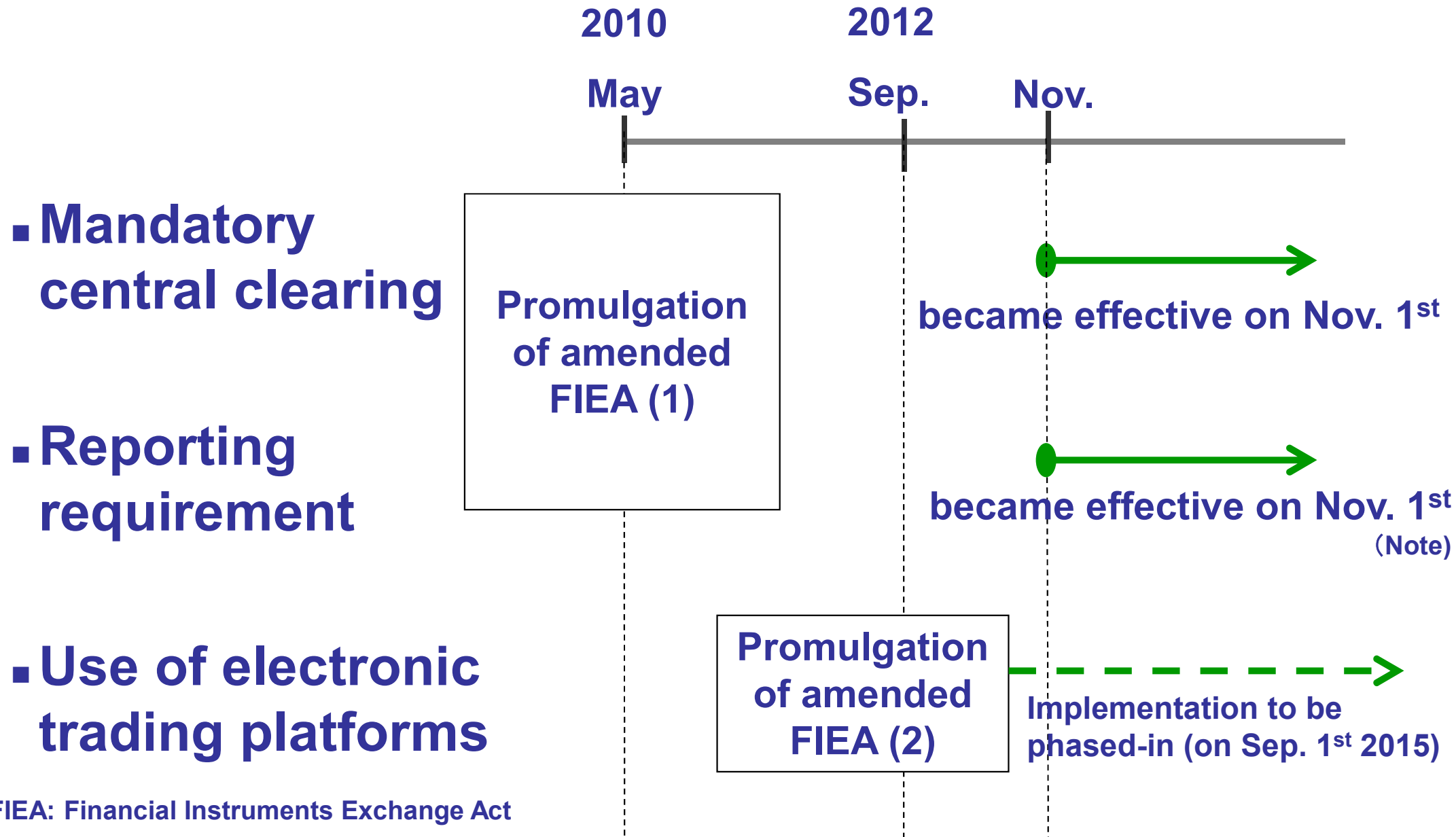
○ Nov. 2011 : G20 Cannes Leaders Summit Communiqué

We call on the Basel Committee on Banking Supervision (BCBS), the International Organization for Securities Commission (IOSCO) together with other relevant organizations to develop for consultation standards on margining for non-centrally cleared OTC derivatives by June 2012



On the basis of the agreements, each jurisdiction has been working on its implementation of reforms.

OTC Derivatives Market Reforms in Japan



FIEA: Financial Instruments Exchange Act

(Note) Reporting starts from April 2013.

FSA publishes a report on over-the-counter (OTC) derivatives from May 2014.

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