



Tokyo Metropolitan Government  
"Invest Tokyo" Support Program for  
Foreign Financial Companies

## Japan Asset Management Report

September 2022



# Table of contents

---

## **1. Why Japan? - Attractiveness of Japan's Asset Management Market**

- 1-1. Attractiveness of Fundraising in Japan p. 3-10
- 1-2. Attractiveness of Investing into Japan p. 11-12

## **2. Expanding business opportunities for asset management companies**

- 2-1. Overview of the Japanese asset market p. 13
- 2-2. Further measures to accelerate the shift from savings to investment p. 14
- 2-3. Trends in ESG p. 15-20

## **3. Support for overseas firms and Regulatory changes**

- 3-1. Support for overseas firms p. 21-25
- 3-2. Regulatory changes p. 26-27

# Table of contents

---

## 4. Market entry: Entity structures and licenses

4-1. Company Foundation Types and their Legal Positions	p. 28-30
4-2. Required License Type According to Activity	p. 31-35
4-3. Conditions by License Type	p. 36-37
4-4. Typical Timeline for License Acquisition	p. 38

## Annex

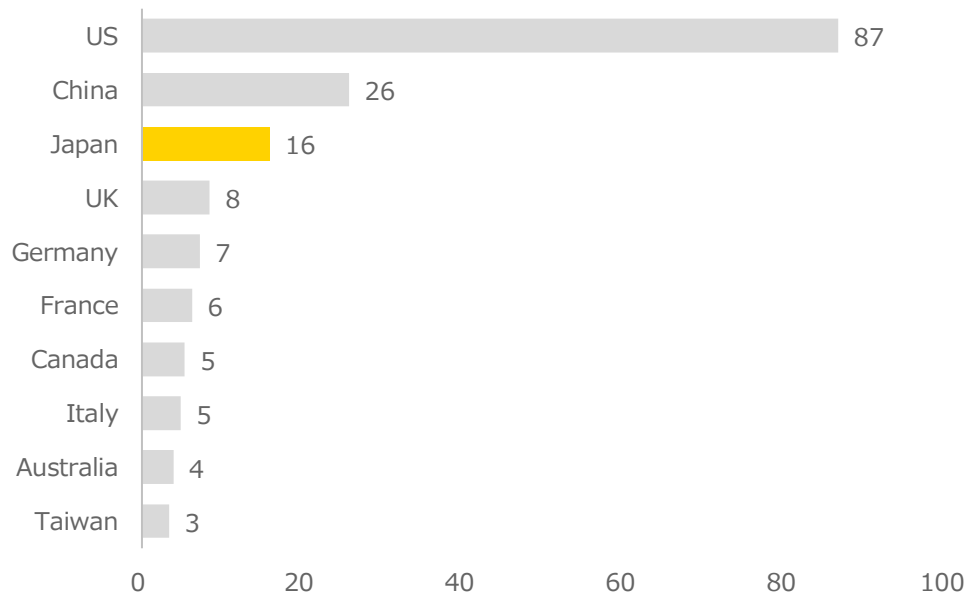
p.39-45

# 1. Why Japan?

## 1-1. Attractiveness of Fundraising in Japan : Household financial assets

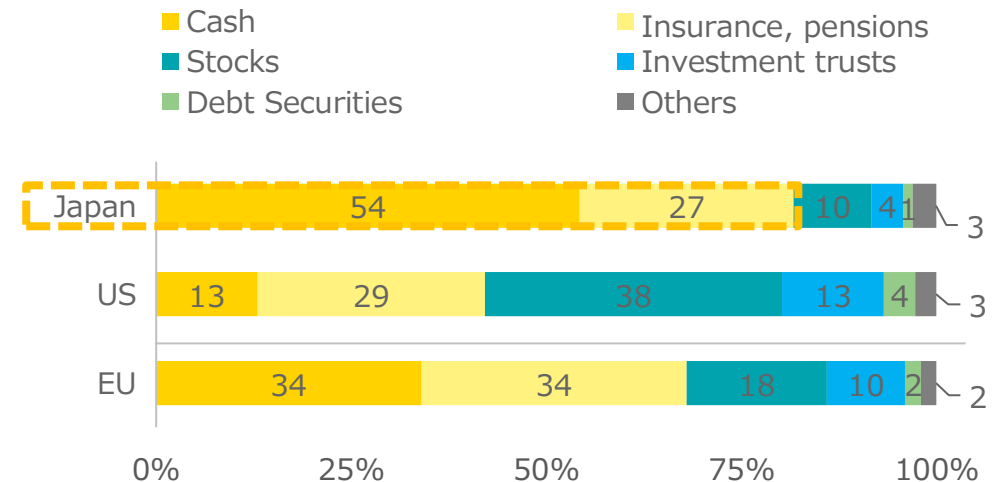
- ▶ Japanese households hold over \$16 trillion in personal financial assets, of which over 50% is in cash, and around 80% when insurable products are included. Investments only account for a small portion of household assets.
- ▶ Compared to other countries, there are therefore business opportunities for asset management companies to assist households increase their investment ratio.

Total Household Financial Assets TOP 10 (2021)<sup>1</sup>



[Household Financial Assets (USD Trillion)]

Breakdown of Household Financial Assets (2021)<sup>2</sup>



Sources: 1. Statista, [Gross private financial assets in selected countries](#), viewed on Jul. 12, 2022.  
2. Research and Statistics Department, Bank of Japan, [Comparison of Flow of Funds between Japan, the U.S. and Europe](#), Aug. 20, 2021.

# 1. Why Japan?

Institutional Investors

Large Enterprises

Individual Investors

SMEs/Startups

## 1-1. Attractiveness of Fundraising in Japan: Pension Funds Shifting Toward Overseas Investments

- ▶ Japanese pension funds including the world's largest – the Government Pension Investment Fund (GPIF) – manages over USD 2.5 trillion in assets.

Top 5 Pension Funds by AUM, Global (2021)<sup>1</sup>

Rank	Fund	Country	AUM(USD bn)
1	GPIF	Japan	1,719
2	Government Pension Fund	Norway	1,305
3	National Pension	Korea	765
4	National Social Security	China	448
5	Canada Pension	Canada	390

Pension Funds by AUM, Japan (2020)<sup>1</sup>

Domestic Rank	World Rank	Fund	AUM (USD bn)
1	1	GPIF	1,719
2	13	Local Government Officials	248
3	32	Pension Fund Association	121
4	36	National Federation of Mutual Aid	118
5	59	National Public Service	80
6	85	Organization for Workers	60
⋮	⋮	⋮	⋮
Total			2,600

Sources: 1. Willis Towers Watson, [Thinking Ahead Institute/Pensions & Investments World 300](#), Aug. 12, 2021.

# 1. Why Japan?

## 1-1. Attractiveness of Fundraising in Japan: GPIF Shifting Toward Overseas Investments

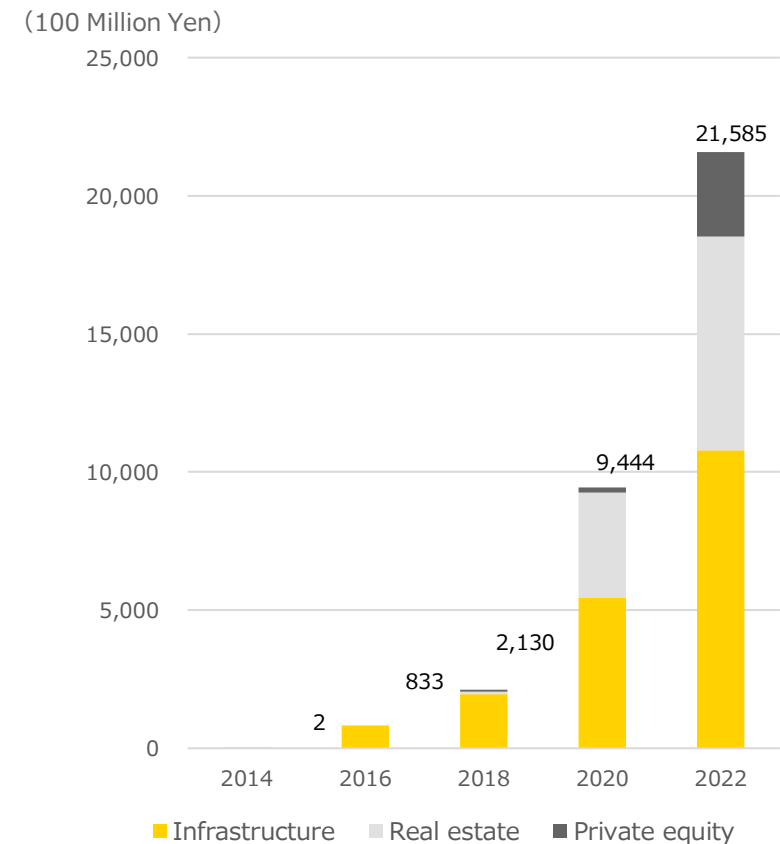
- ▶ The Government Pension Investment Fund (GPIF) has been expanding its international and alternative investments which present potential new business opportunities for foreign asset managers.

### GPIF Investment Policy Evolution

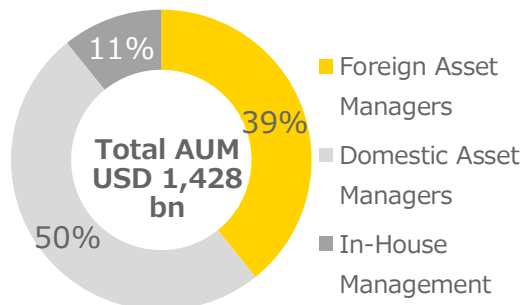
#### ● Changes in Portfolio Composition<sup>1</sup>

	GPIF's Asset Holdings			
	International Fixed Income	International Equity	Domestic Fixed Income	Domestic Equity
2013	11%	12%	60%	12%
2014	15%	25%	35%	25%
2022	<b>25%</b>	<b>25%</b>	25%	25%

#### ● Alternative Investments<sup>2</sup>



#### ● GPIF Investment Consignment (2021)<sup>3</sup>



- ▶ In 2018, GPIF revised its partial performance-based fee structure, eliminating the threshold for performance linked remuneration

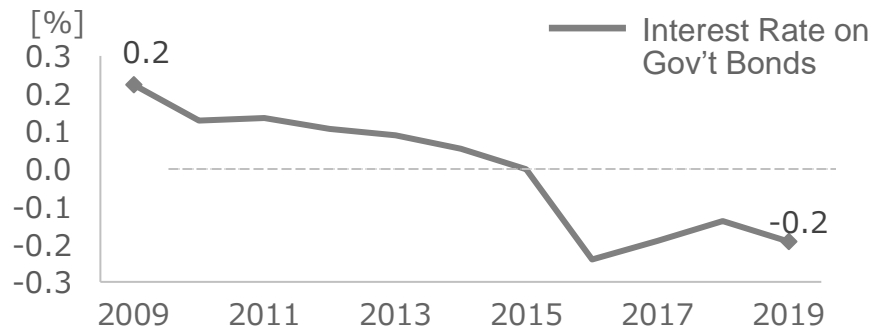
Sources: 1. GPIF, [Basic Portfolio Concept](#), August 12, 2022  
 2. GPIF, [Management/Operation Status](#), Jul. 12, 2022.  
 3. GPIF, [Assets under management by trustee organization](#), Jul. 12, 2022.

# 1. Why Japan?

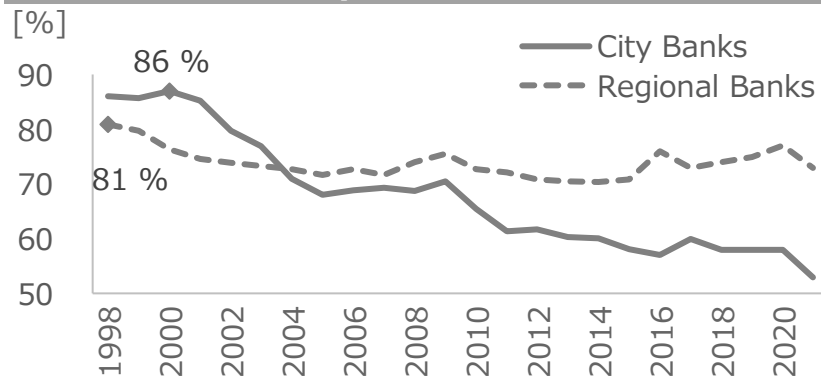
## 1-1. Attractiveness of Fundraising in Japan: Financial Institutions Shifting Toward Alternatives

- Japanese financial institutions are shifting their portfolio compositions toward alternative investments due to higher potential returns. There will be likely demand for the investment management services of foreign AMCs with experience in alternative investment.

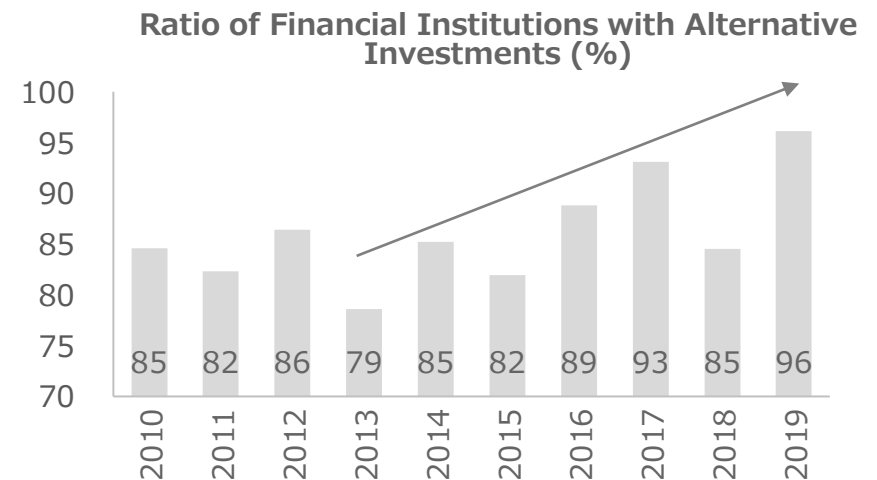
Policy Interest Rate - Japan<sup>1</sup>



Japanese Financial Institutions' Loan-to-Deposit Ratio<sup>2</sup>



Alternative Investments by Japanese Financial Institutions<sup>3</sup>



- Domestic financial institutions have accelerated their alternative investments.<sup>4</sup>
  - Sumitomo Mitsui Trust Bank announced the launch of a capital and business alliance with CrossHarbor Capital.
  - Sumitomo Mitsui Banking Corp has acquired about \$400 million worth of shares of common stock in ARA Asset Management.

# 1. Why Japan?

## 1-1. Attractiveness of Fundraising in Japan : Other investors

- ▶ A 10 trillion JPY university endowment fund was setup in 2021 and will be starting to invest globally, including strategic investments into alternative assets.
- ▶ Foundations are also attractive potential investors given their asset bases.

### University Endowment Funds<sup>1</sup>

Japan's University Endowment Funds (2019)		
Rank	Name	Endowment Fund (Million USD)
1	Japan Science and Technology Agency (JST)	37,775
2	Keio University	576
3	Waseda University	216
4	Kyoto University	145
5	Tokyo University	110

- In 2021 the Japanese Government, concerned about the weak financial strength and research bases of domestic universities compared to their foreign counterparts, setup a 10 trillion JPY university endowment fund in JST.
- Japanese universities trail global universities in terms of the establishment and scale of endowment funds.

### Foundations<sup>2</sup>

#### Number of Foundations and Total Assets by Asset Size

Asset size (Billion Yen)	Number of Foundations	%	Total assets (Billion Yen)	%
less than 1	446	45%	183	3%
1~5	319	33%	700	14%
5~10	78	8%	525	10%
10~	129	13%	3,990	73%

- The total assets of the 972 foundations in Japan amount to 39.7 billion USD, and the assets are mainly invested in bonds and stocks.

Sources: 1. NHK, [Japan's University Endowment Fund](#), Aug 23, 2022  
2. The Japan Foundation Center, [Current status of foundations in Japan](#), viewed on Aug.23, 2022



# 1. Why Japan?

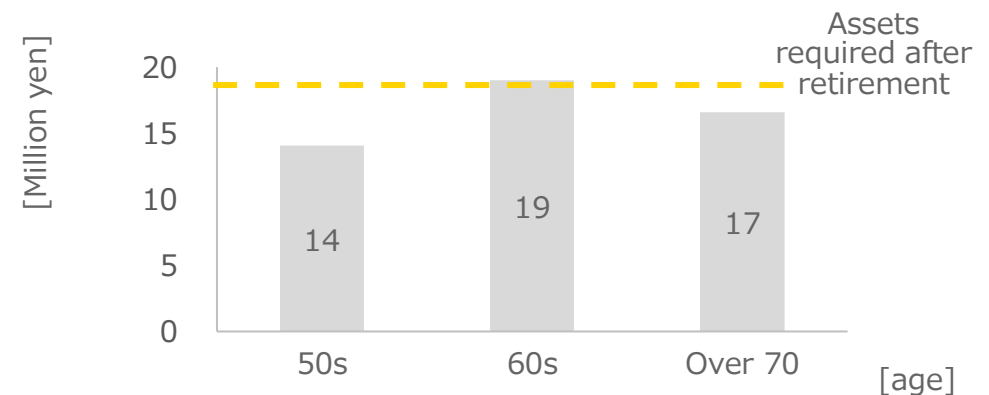
## 1-1. Attractiveness of Fundraising in Japan: Individual Investors

- ▶ Concerns regarding sufficiency of post-retirement assets means there is potential for increased investment by individuals.

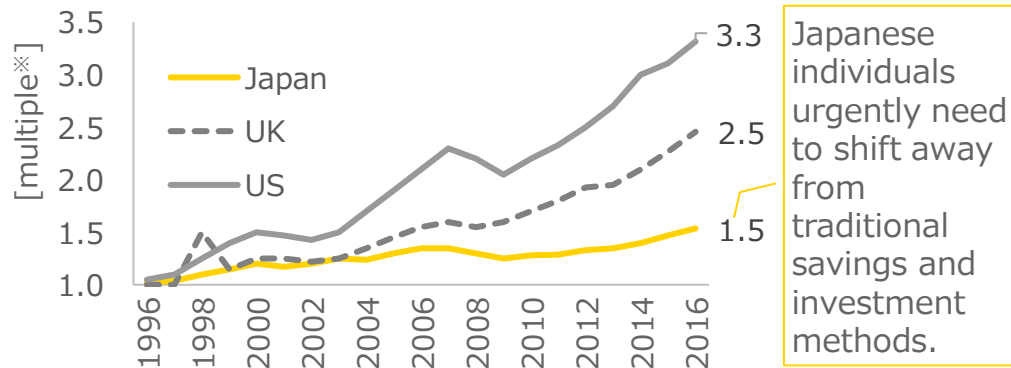
### Concerns Regarding Post-Retirement Assets

- According to the Ministry of Internal Affairs and Communications,<sup>1</sup> retired couples may face difficulties covering living expenses with pension benefits alone, increasing the need for asset building post-retirement.
- FSA states couples in Japan will need to save around 20 million yen (\$185,000) for retirement assuming they live to 95 years old<sup>2</sup>, highlighting the financial challenges associated with longer life spans.

### Japan's Household Financial Assets by Age Group (2019)<sup>4</sup>



### Return Multiple for Household Financial Assets in Major Countries<sup>3</sup>



- There are business opportunities in helping households increase their levels of investment for retirement.

※ Base year = 1996

Sources:

Page 8

1. Statistics Bureau of the Ministry of Internal Affairs and Communications, *Annual Report on the Family Income and Expenditure Survey 2016 <Expenditures>*; Ministry of Health, Labour and Welfare, *Example of Pension Amounts for New Beneficiaries (67 years old or younger) in Fiscal Year 2017*

2. NIKKEI ASIA, Japanese couples need \$185,000 nest egg in era of 100-year life, Aug. 12., 2022

3. Financial Services Agency, *Financial Report*, Sep. 15, 2016

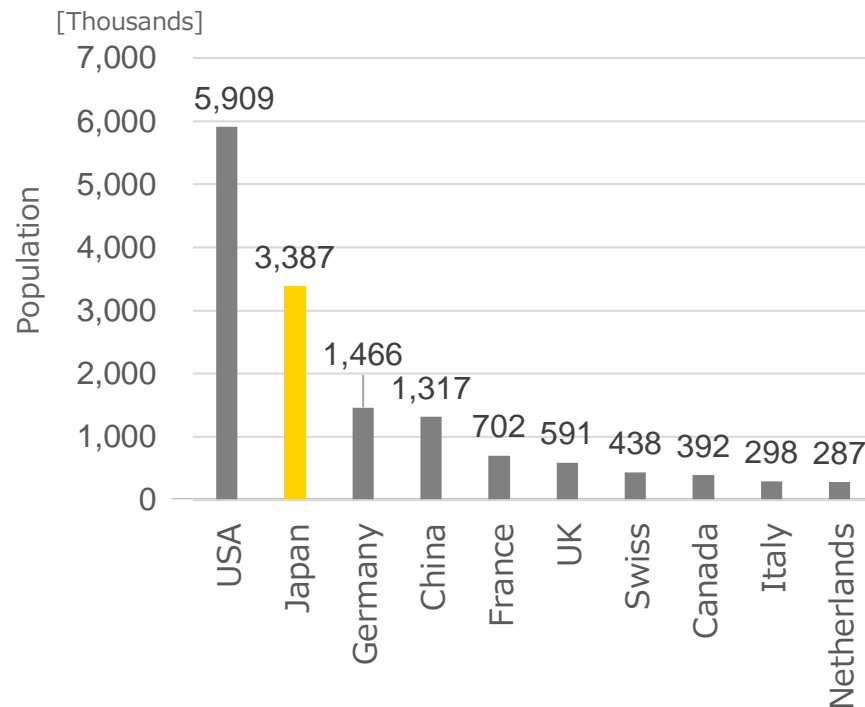
4. Ministry of Internal Affairs and Communications, *Survey of household economy*, Jul. 1, 2022

# 1. Why Japan?

## 1-1. Attractiveness of Fundraising in Japan: HNWI's (High Net Worth Individuals)

- ▶ Japanese HNWI population ranks second in the world, with their wealth growing in recent years. Moreover, Mass Affluent accounts for about 6.3% of the total households, and the depth of the segments is one of the characteristics of the Japanese market.

HNWIs/U-HNWIs Population Ranking by Country (2020)<sup>1</sup>



Trends in HNWI Household Asset Levels and Number of Households in Japan<sup>2</sup>

		2011	2013	2015	2017	2019
U-HNWIs	Net financial assets (USD trillion)	0.4	0.7	0.7	0.8	0.9
	Households (K)	50	54	73	84	87
HNWIs	Net financial assets (USD trillion)	1.3	1.5	1.8	2.0	2.2
	Households (K)	76	953	1,144	1,183	1,240
Mass Affluent	Net financial assets (USD trillion)	1.8	2.2	2.2	2.2	2.3
	Households (K)	2,687	3,152	3,149	3,222	3,418

### Investable Assets

- HNWI's are defined as individuals who own investable assets worth over USD 1 million (around 100 million yen) and can be classified into two types:
  - U-HNWI's (Ultra High Net Worth Individuals) : USD 5 million or more (about JPY 550 million)
  - HNWI's (High Net Worth Individuals) : USD 1 million – 5 million (about JPY 100~550 million)
- Mass Affluent are defined as individuals with investable assets worth USD 0.5 million–1 million (about JPY 50~100 million)

Sources:

1. Capgemini, *World Wealth Report*, Jul. 9, 2020

2. Nomura Research Institute. Japan's Affluent Segment Consisted of 1,330,000 Households and Held Total Net Financial Assets of ¥333 trillion, Dec. 21, 2020

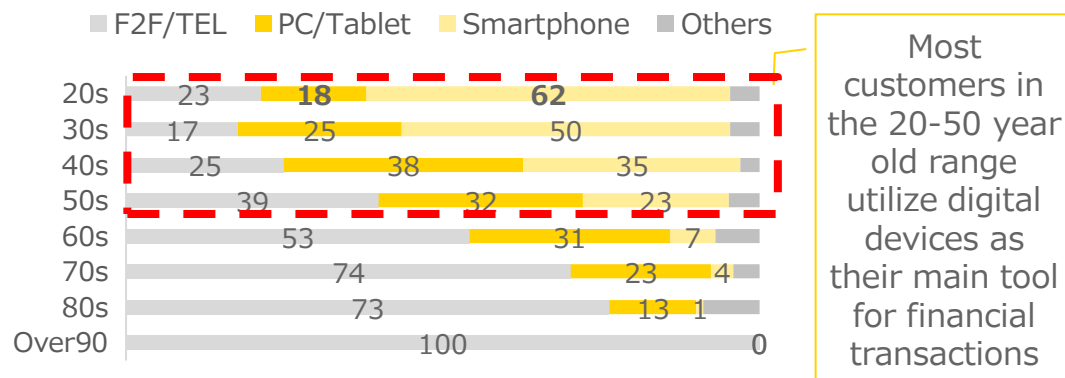
# 1. Why Japan?

## 1-1. Attractiveness of Fundraising in Japan: Trends in Wealth Management (WM)

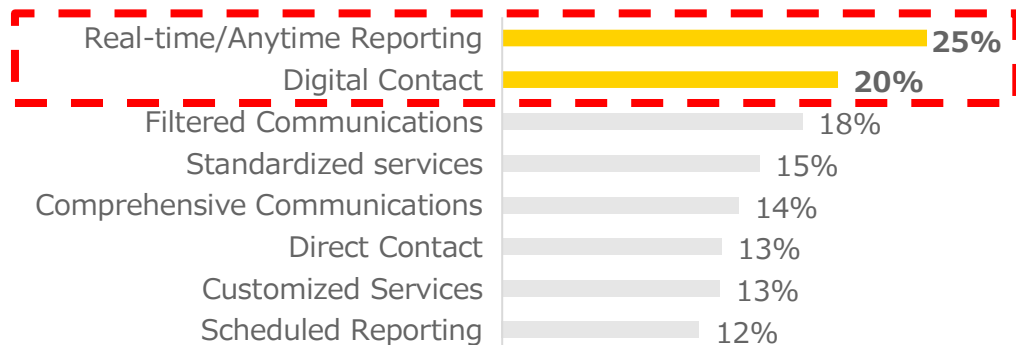
- ▶ Younger generations, who are expected to be major WM clients in the future, prefer conducting financial transactions through digital channels, which is expected to lead to increased business opportunities for digital WM service providers.

### Digital Trends Among Japanese Investors

#### ● Means of Financial Transaction by Age Group (2018)<sup>1</sup>



#### ● What Japanese investors expect from WM services<sup>2</sup>



### Trends in Digital Use by Asset Managers in Japan

- WM companies using digital equipment have shown successful outcomes in response to investors' digital shift

CAGR growth rates of WM companies(2018 to 2021)<sup>3</sup>

**Wealth Navi**  
CAGR=74%

6.5 → 34.3  
(USD million)

**Money Design**  
CAGR=73%

1 → 5.4  
(USD million)

**Toranotec**  
CAGR=205%

0.05 → 1.6  
(USD million)

- There are market opportunities for foreign asset managers able to take advantage of their Japanese competitors' relative lag in digitalization

Sources:

1. Japan Securities Dealers Association, National Survey on Securities Investment, Dec. 2018

2. Capgemini, Asia-Pacific Wealth Report, Sep. 25, 2013

3. Created by EY based on information from major asset management companies as of Jul. 2022

# 1. Why Japan?

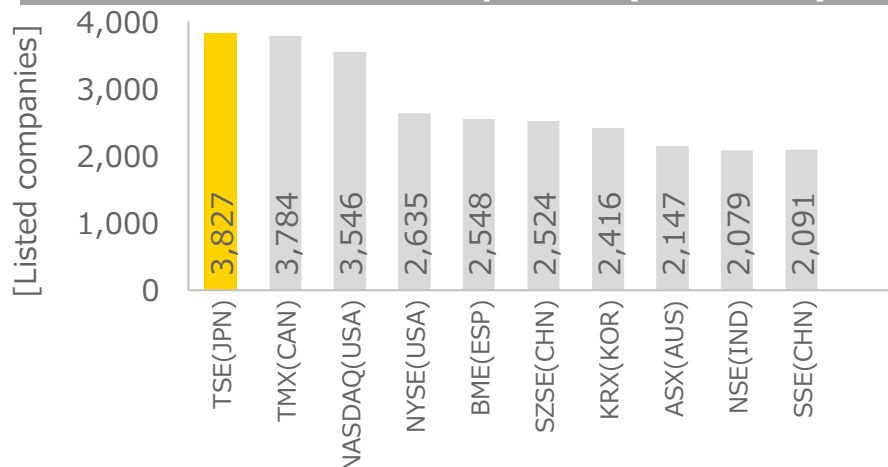
## 1-2. Attractiveness of Investing into Japan: Financial Market Stability/Large Enterprises

- ▶ The Japanese stock market is highly liquid, and in addition to the abundance of listed stocks, it is home to many large companies, ranking third globally for number of companies listed in the Fortune Global 500.

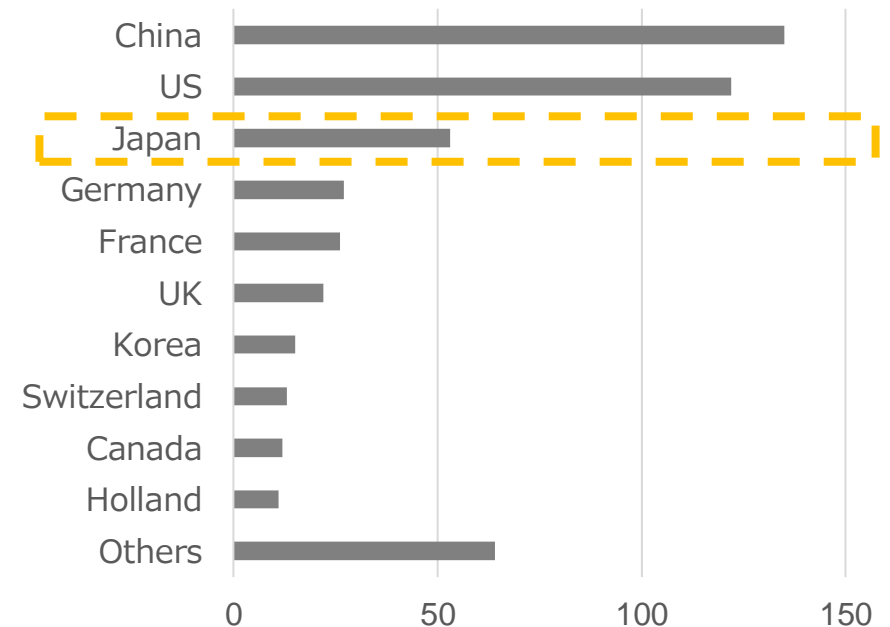
Stock Market Trends - Japan

Major Stock Market Liquidity (2022/02) <sup>1</sup>			
Stock Exchange <sup>*1</sup>	Market Capitalization (100 million yen) [a]	Value Traded (100 million yen) [b]	Turnover Ratio (%) <sup>*2</sup> [b/a]
TSE	6,939,572	1,280,746	0.18
NYSE	30,152,664	6,862,847	0.22
LSE	4,173,194	300,243	0.07

Number of Listed Companies (2022/04)<sup>2</sup>



Number of companies listed in the Fortune Global 500 by country<sup>3</sup>



Note:

<sup>\*1</sup> TSE: Tokyo Stock Exchange, NYSE: New York Stock Exchange, LSE: London Stock Exchange

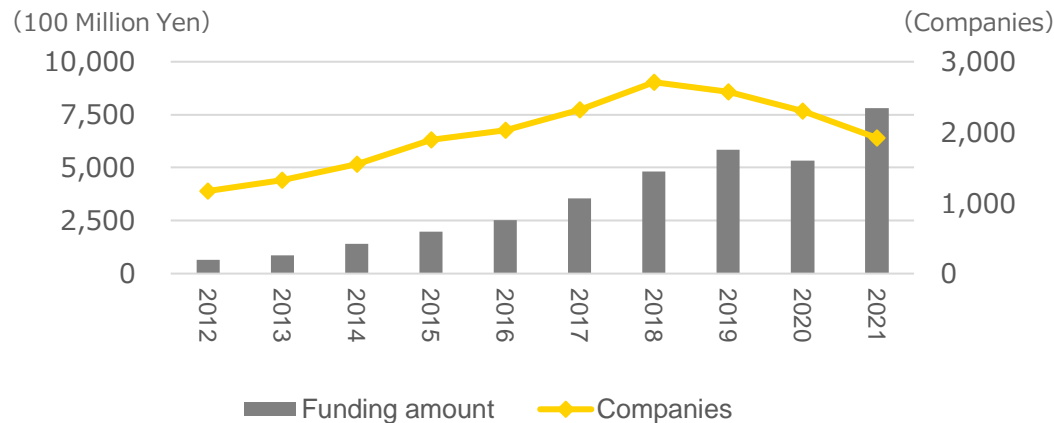
<sup>\*2</sup> Peak-to-Trough Ratio =  $(\max/\min - 1) \times 100$

# 1. Why Japan?

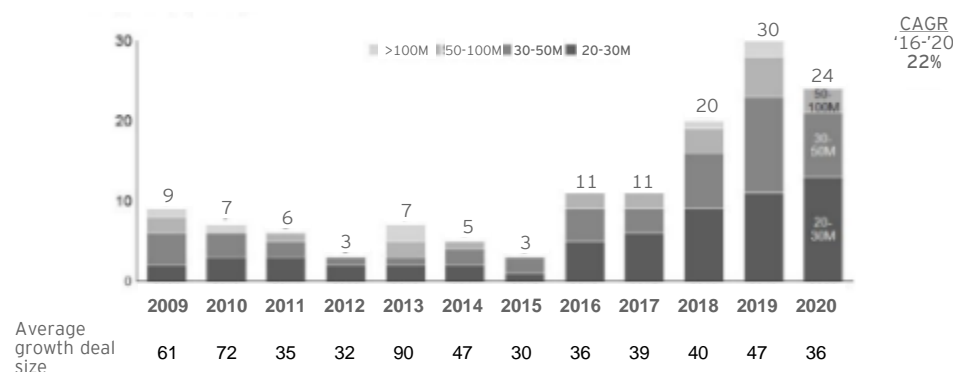
## 1-2. Attractiveness of Investing into Japan: Startups

- ▶ The Japanese startup market has been active since the late 2000s, with growth investments expanding in recent years. As a result, the number of startups with sufficient maturity and scale for large-scale fundraising is increasing.
- ▶ The Japanese Government designated 2022 as the "first year of startup creation" and is accelerating the development of domestic startups, including the establishment of new funds to attract overseas venture capital, meaning increased business opportunities for foreign VC firms.

### Funding amount and number of Japanese Startups<sup>1</sup>



### Growth Investment in Japanese Startups<sup>2</sup>



### Support for Japanese SMEs/Startups

- **Japanese Government's "New Capitalism"<sup>3</sup>**
  - In 2022, the government formulated a "five-year startup development plan" with the goal of increasing the number of startups 10 times in the next five years.
  - In April 2022, the Prime Minister publicly announced that investment in venture capital and startups will be expanded, including from overseas, as well as personal financial assets and long-term investment funds such as GPIF.
- **First Investment in Japanese Startups by GPIF<sup>4</sup>**
  - In May 2022, GPIF embarked on a multi-billion-yen investment via a venture capital fund.
  - This marks the first time for GPIF to invest in a fund for domestic startups.
- **Plan to establish a fund for foreign VCs<sup>5</sup>**
  - The government announced plans to establish a new fund by FY2023 to encourage foreign venture capitalists to invest in Japanese startups.

#### Sources

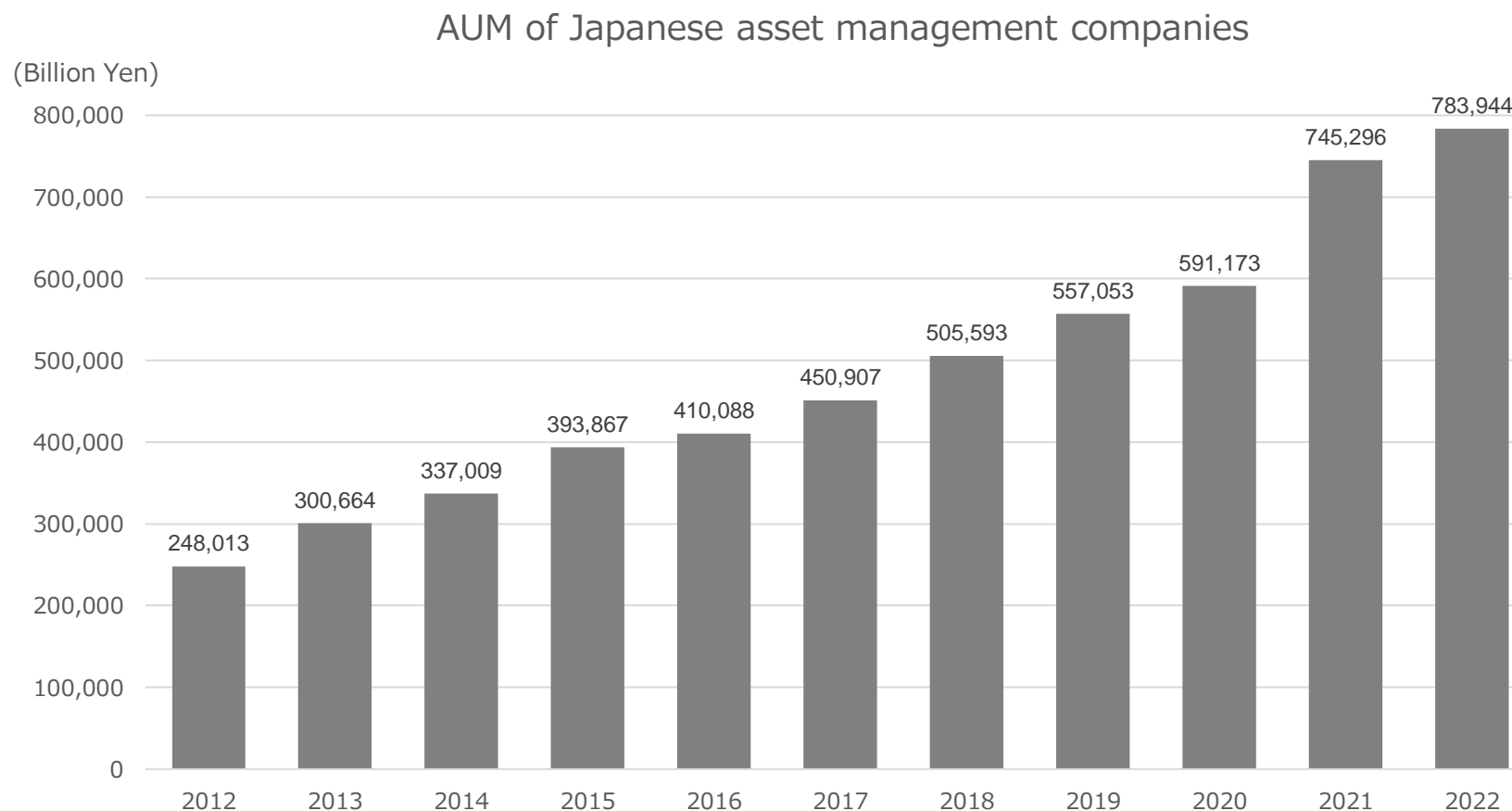
1. INITIAL, *2021 Japan Startup Finance*, Feb. 4, 2022
2. JPEA, *Private Equity of Japan*, viewed on Jul. 12, 2022
3. Prime Minister's Office, *Forum of New Capitalism*, Viewed on Jul. 12, 2022

4. Nikkei, *First Investment in Japanese Startups by GPIF*, Jul. 4, 2022
5. Nikkei, *Investing in only foreign VC, Japanese Government will establish a fund*, May 18, 2022

## 2. Expanding business opportunities for asset management companies

### 2-1. Overview of the Japanese asset market

- ▶ Total assets under management (AUM) by Japanese asset management companies is 783 trillion JPY, having risen around 10%~20% per every year in the past decade.



\* Assets under management in Japan are calculated as the sum of discretionary investment management and advisory contracts, etc. and investment trusts.

Sources:.

1. The Investment Trusts Association, [Japan Investment Trusts](#), Feb. 13, 2022
2. Japan Investment Advisers Association, [Tokei202209](#), Feb. 13, 2022

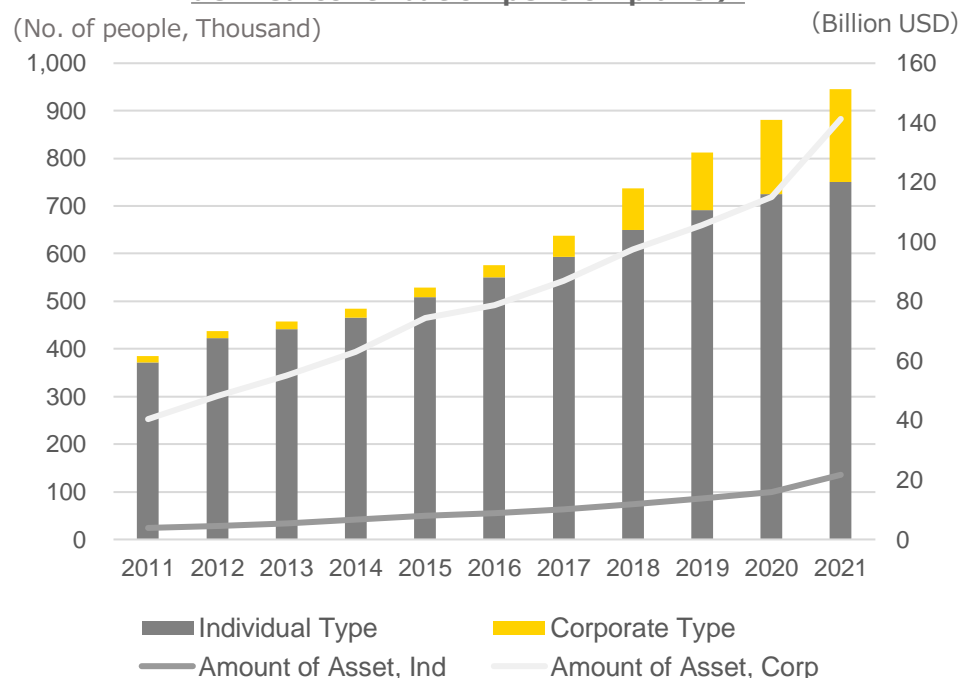
## 2. Expanding business opportunities for asset management companies

### 2-2. Further measures to accelerate the shift from savings to investment

#### Amendments to the law concerning Defined-Contribution Pension Plans\*

- ▶ In June 2020, eligibility ages for the Defined-Contribution Pension Plan (individuals and corporations) were extended and enrolment requirements were eased, to extend people's working life and increase post-retirement savings.
- ▶ For asset management companies, demand for investment advisory and asset management is expected to increase.

( Number of participants and assets in defined contribution pension plans ) <sup>1</sup>



#### Japanese Government's "Asset Income Doubling Plan" <sup>2</sup>

- ▶ In the "Basic Policy on Economic and Fiscal Management and Reform (Basic Policy 2022)\*1 released in June 2022, the "Asset Income Doubling Plan" was formulated to direct the financial assets of Japanese into asset management.
- ▶ Demand for investment advice and asset management is expected to increase in line with the expansion of investment in NISA, iDeCo, etc.

#### NISA Amendments to the NISA/iDeCo schemes

	Tax-exempt investment limit		Tax-exempt period		Account opening period	
	Before amendment	After amendment	Before amendment	After amendment	Before amendment	After amendment
A) NISA	1.2 million yen per year	1.22 million yen per year	Maximum 5 years	Can be transferred to B) upon termination of the left period	Until 2023	Until 2028
B) Tsumitate NISA	0.4 million yen per year	No change	Maximum 20 years	No change	Until 2037	Until 2042

▶ Junior NISA will end at the end of 2023 due to low and slow growth of users.

#### iDeCo

	Age to start receiving benefits		Eligible age for enrollment		Simultaneous enrollment with corporate-type DC	
	Before amendment	After amendment	Before amendment	After amendment	Before amendment	After amendment
iDeCo	60 - under 70 years old	60 - under 75 years old	20 to under 60 years old	20 to under 65 years old	In accordance with terms and conditions.	Permitted even if not provided for in the terms and conditions*

※ Caps are set for company-type DC and iDeCo contributions.

Note: \*Private pension plans comprise the Defined-Contribution Pension Plan and the Defined-Benefit Corporate Pension Plan. The latter is a pension system in which financial institutions, under contract with the company concerned, manage and administer the plan where future benefits are predetermined.

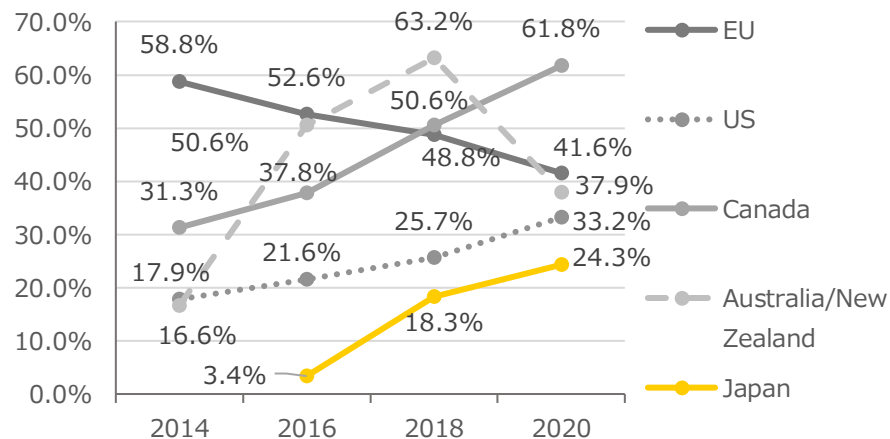
## 2. Expanding business opportunities for asset management companies

### 2-3. Trends in ESG: ESG-related markets/investor status

- ▶ While ESG investment in Japan is low compared to other countries, it is on the rise.
- ▶ ESG-related information is widely used for investment decisions, with issues such as climate change attracting increasing interest among investors.

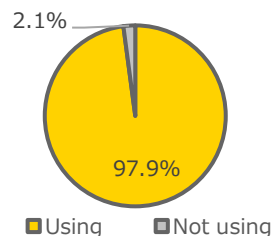
#### ESG investments

Trends in the ratio of ESG assets to total AUM<sup>1</sup>



- The ratio of ESG assets to total AUM increased by 20.9% over the four-year period from 2016 to 2020.

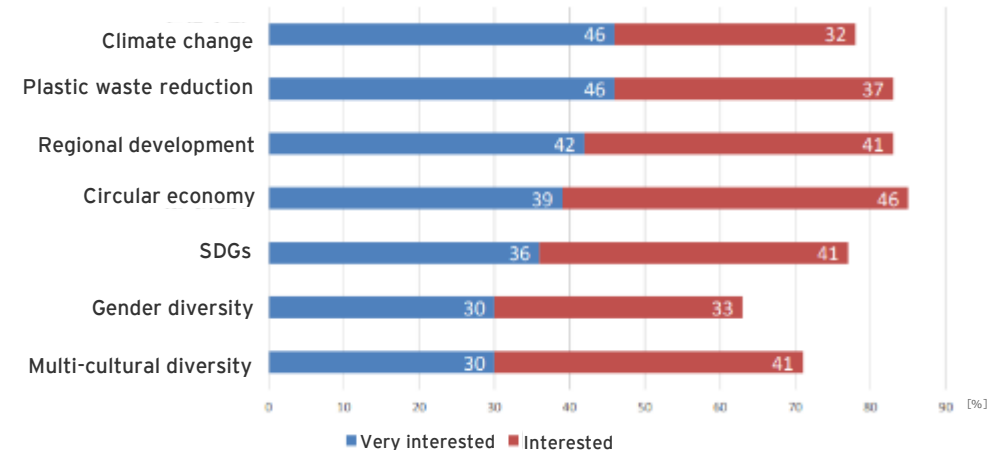
Proportion of asset managers using ESG information in investment decisions (2019)<sup>2</sup>



- 97.9% of Japanese asset managers (48 companies) are using ESG information in their investment decisions.

#### Green finance

Individual investors' interest in climate change (2019)<sup>3</sup>



- Survey of 800 individual investors<sup>\*1</sup> shows strong interest in climate change.

Sources: Compiled with reference to the following references.

Note: <sup>\*1</sup> Retail investors holding minimum investable assets of 100,000 USD



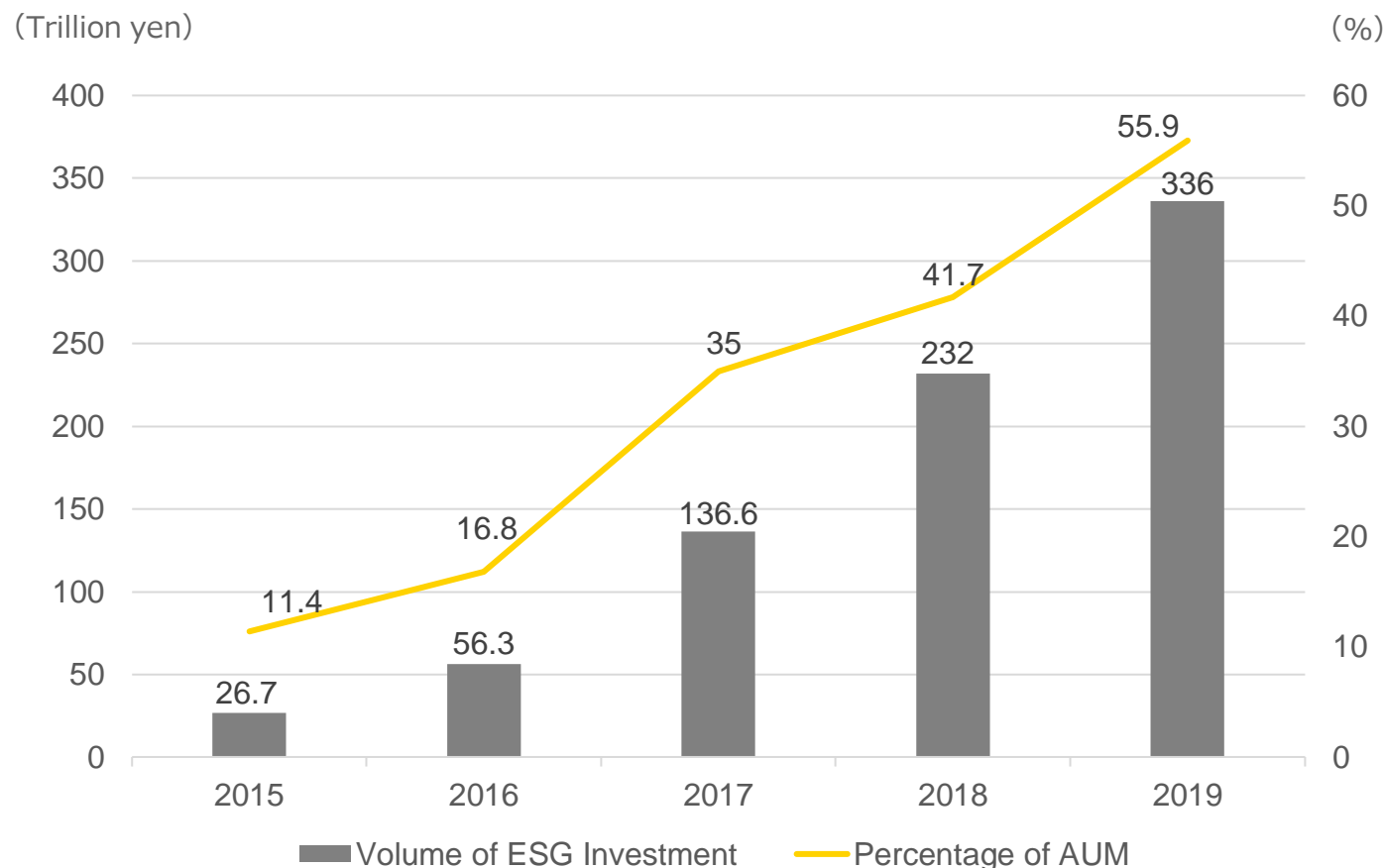
## 2. Expanding business opportunities for asset management companies

### 2-3. Trends in ESG: By Investor Type (Institutional Investors)

- ▶ ESG investment by Japanese institutional investors is approximately 336 trillion yen (as of 2019), having grown more than ten times since 2015.

#### ESG

#### ■ Trends in ESG investment, Japan (2015-2019)<sup>1</sup>



Sources: 1. Nomura Research Institute. Individual Investors, 2020 Autumn

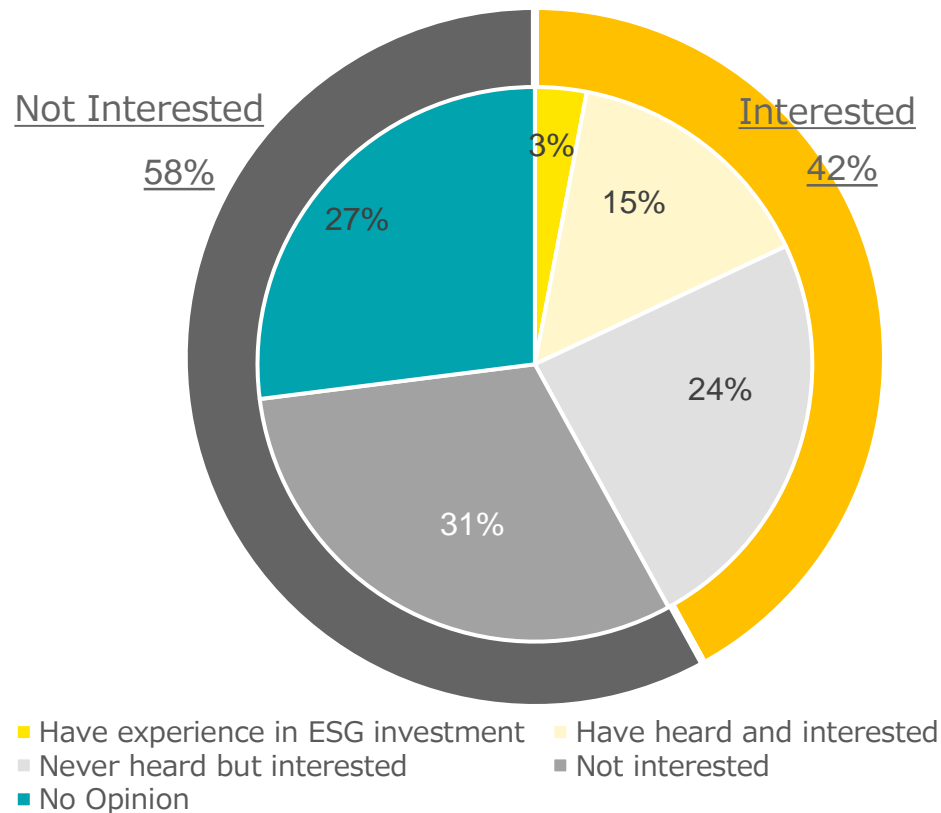
## 2. Expanding business opportunities for asset management companies

### 2-3. Trends in ESG: By Investor Type (Individual Investors)

- ▶ Although awareness of ESG investment among Japanese individual investors overall is limited at 42%, younger investors (39 years old and below) are increasingly interested in ESG-related equity investment.

#### ESG

Awareness of ESG investment (2021)<sup>1</sup>



ESG factors and equity investment by age group (2020)<sup>2</sup>

Item	Date	Age Range (years)			
		0-39	40-49	50-59	60+
Need to consider ESG factors	Oct 2017	55.6%	61.1%	63.8%	72.3%
	Dec 2018	63.1%	62.2%	66.6%	72.4%
No need to consider ESG factors	Oct 2017	12.3%	9.0%	6.3%	5.7%
	Dec 2018	8.8%	14.6%	11.1%	9.3%
Not sure	Oct 2017	32.1%	29.9%	29.8%	22.0%
	Dec 2018	28.1%	23.2%	22.3%	18.3%

Sources:

1. QuickKnowledge, Sustainability Awareness Survey, Jul 16, 2021
2. Nomura Research Institute, ESG Investments of Japanese Individual Investors, 2020 Autumn

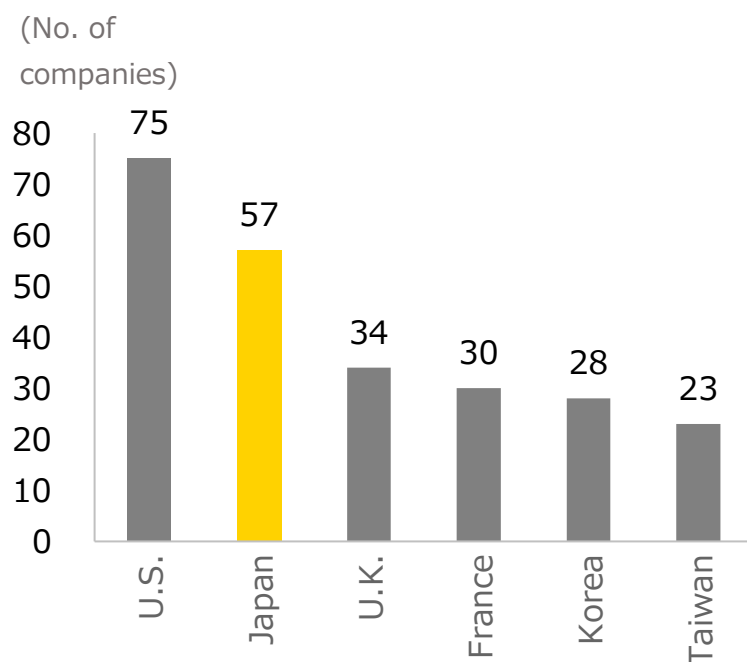
## 2. Expanding business opportunities for asset management companies

### 2-3. Trends in ESG: ESG status of investee companies (by country)

- ▶ By global standards, Japan has a large number of companies with high ESG ratings and is a promising market for ESG investment.

#### ESG investments

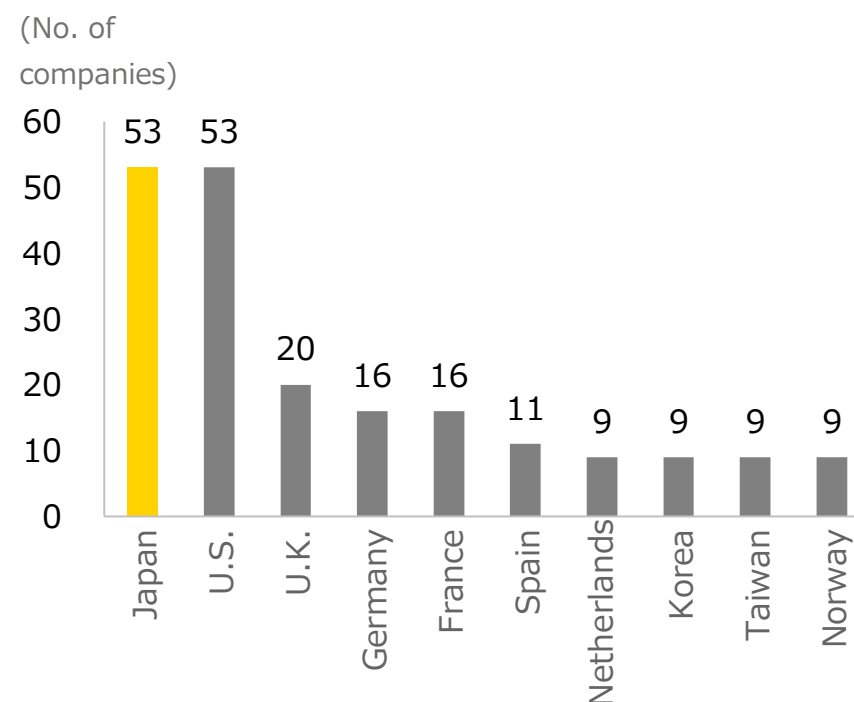
No. of advanced companies per country by ESG initiatives (2020)<sup>1</sup>



- RobecoSAM, an ESG rating agency, surveyed 4,710 companies worldwide and rated 458 companies in 33 countries as advanced in terms of ESG initiatives.
- Japan ranked second in the world with 57 companies, behind only the United States with 75 companies.

#### Green finance

A-rated companies by country based on climate change-related information disclosure (2020)<sup>2</sup>



- CDP\* conducted a survey of more than 9,600 companies around the world that disclose environmental information through CDP, and gave the highest "A" rating to 313 companies for their efforts in addressing climate change.
- CDP noted that Japan's high rating was a result of the proactive stance taken by Japanese companies in disclosing information on climate change.<sup>3</sup>

Sources:

\*Note: Carbon Disclosure Project (CDP) is a London-based non-profit organization.

## 2. Expanding business opportunities for asset management companies

### 2-3. Trends in ESG: Government initiatives

- ▶ The government is working to promote ESG-related investments through various policy initiatives.

FSA's initiatives	METI's initiatives	Ministry of Environment's initiatives
<ul style="list-style-type: none"> <li>● <b>Revised Japan's Stewardship Code</b> <ul style="list-style-type: none"> <li>➢ The FSA revised Japan's "Stewardship Code" in 2020 to require institutional investors to accurately understand the non-financial information - including related to ESG - of investee companies.</li> </ul> </li> <li>● <b>Network for Greening the Financial System (NGFS)</b> <ul style="list-style-type: none"> <li>➢ Established in December 2017 as a national network of central banks and financial supervisors to consider climate-related financial risks.</li> <li>➢ Proposed a series of recommendations to address these risks.</li> </ul> </li> <li>● <b>Released its "Expectations for asset management companies handling ESG investment trusts"</b> <ul style="list-style-type: none"> <li>➢ Called on asset managers to improve efforts addressing greenwashing, a growing issue in recent years</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● <b>Released the "Guidance on Climate-related Financial Disclosures (TCFD Guidance)"</b> <ul style="list-style-type: none"> <li>➢ In 2018, the Ministry of Economy, Trade and Industry (METI) released the Guidance on Climate-related Financial Disclosures (TCFD Guidance) as a guide to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.</li> <li>➢ The TCFD Consortium, led by the private sector, was established in May 2019 to respond to these recommendations.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● <b>"ESG Finance Awards"</b> <ul style="list-style-type: none"> <li>➢ Aims to promote the expansion of ESG finance by awarding financial institutions and organizations that are making substantive efforts in this field.</li> </ul> </li> <li>● <b>Promotion of dialogue based on information disclosure</b> <ul style="list-style-type: none"> <li>➢ Support the implementation of ESG policies required by the Stewardship Code and Principles for Responsible Banking.</li> <li>➢ Promote TCFD and ESG information disclosure.</li> <li>➢ Promote dialogue on environmental issues such as plastic waste, etc.</li> </ul> </li> <li>● <b>Expansion of impact investment and financing</b> <ul style="list-style-type: none"> <li>➢ Support impact-oriented financial instruments through the development of guidelines and subsidized projects (green bonds, green loans, sustainability-linked loans, etc.)</li> </ul> </li> </ul>

#### Sources:

- Tokyo Metropolitan Government, *Green Bond Issuance Support Platform*, viewed on Apr. 9, 2021
- The Organization of Global Financial City Tokyo, *Sixth Report on the Project for Networking Foreign Financial Companies: Asset Management*
- Ministry of Finance, *Concerning ESG Investments*, Dec. 2, 2020
- Financial Services Agency, *Documents related to New Capitalism*, Aug. 12, 2022

## 2. Expanding business opportunities for asset management companies

### 2-3. Trends in ESG: Tokyo Metropolitan Government initiatives

- ▶ Tokyo Metropolitan Government (TMG) is working to encourage ESG investment through funding policies such as provision of subsidies and issuance of green bonds, as well as the establishment of a department to promote ESG-related funds and investments.

#### TMG's initiatives

##### Funding policies

- **"Subsidy to Support Priority Fields of Overseas Financial Corporations"**
  - Subsidies to support investments in Tokyo by foreign financial companies engaged in green finance.
- **Issuance of Tokyo Green Bonds**
  - Announced the "Green Bond Issuance Policy" in February 2017.
  - TMG became the first local government in Japan to issue green bonds in October 2017.
  - To increase the bonds' appeal to investors, all four items stipulated in the Green Bond Principles of the International Capital Market Association (ICMA) were satisfied, with a third-party evaluation obtained to ensure credibility.

##### Fund establishment

- **Establishment of the Tokyo ESG Fund**
  - TMG's "Tokyo ESG Fund", which will eventually total over 5 billion JPY, aims to diversify investment in domestic renewable energy facilities.
  - TMG invested 500 million JPY in the fund, with the remainder raised by the private sector.
  - Management of the fund also outsourced to the private sector.
- **Establishment of the "Sustainable Energy Fund" (tentative name)**
  - Aims to promote green energy bases, including hydrogen stations and renewable energy facilities

##### Promotion of ESG investment

- **Realizing the "Tokyo Green Finance Market" (tentative)"**
  - TMG's "Tokyo Green Finance Initiative (TGFI)," aims to "develop the green finance market", "expand the range of players in green finance", and "disseminate information on environmental measures and technologies and develop ESG personnel"
- **ESG Investment Category of the Tokyo Financial Award**
  - Awarded to businesses promoting ESG investments since FY2018

#### Sources:

- Tokyo Metropolitan Government, *Platform to support green bonds issuance*, viewed on Apr. 9, 2021
- Tokyo Metropolitan Government, *Main projects of FY2021*, updated on Feb. 26, 2021
- Tokyo Metropolitan Government, *Tokyo Bay ESG Project*, Aug. 12, 2022

# 3. Support for overseas firms and Regulatory changes

## 3-1. Support for overseas firms: Market entry support from the Japanese government and the Tokyo Metropolitan Government for foreign companies (1/3)

- ▶ TMG and the Japanese Government provide various support programs to encourage foreign companies to enter the Japanese market.

### Support by Tokyo Metropolitan Government

#### ● Subsidies for Business Establishment and Operation in Tokyo

##### ① Project for Temporary Office Allocation for Foreign Financial Companies and Human Resources

Description: Office rent subsidy for temporary stay

Support: Actual costs for office rent will be exempted for up to 2,200 USD (300,000 JPY) per month.  
Actual initial costs will be exempted for up to 1,500 USD (200,000 JPY).

##### ② Overseas Financial Corporation Business Establishment Subsidy Program

Description: Subsidizes expenses for consultation with specialists, recruitment, and initial office setup.

Amount: Half of expenses subject to the subsidy up to approx. 55k USD (≒7.5 million JPY)

##### ③ Subsidy to Support Base of Operations of Overseas Financial Corporations

Description: Subsidies for office rent, specialist consulting fees and purchase of equipment

Amount: Half of expenses subject to the subsidy up to approx. 74k USD (≒10 million JPY)

##### ④ Referral of offices with reduced rent

Description: Introduction of properties in the Special Zone for Asian Headquarters with a 10% to 50% discount on office rent for up to a one-year contract period

##### ⑤ Subsidy for the establishment of an asset management business

Description: Subsidy for costs specifically associated with starting an asset management business.

Amount: Half of expenses subject to the subsidy for the first year up to 36K USD (≒5 million JPY) for members of the Investment Trusts Association; and up to 22K USD (≒3 million JPY) for members of the Japan Investment Advisers Association

Converted as 1 USD = 135 JPY (as of Jul. 4, 2022)

Source: Created based on the publicized information such as the press release and websites of TMG (as of Jul. 4, 2022)

# 3. Support for overseas firms and Regulatory changes

## 3-1. Support for overseas firms: Market entry support from the Japanese government and the Tokyo Metropolitan Government for foreign companies (2/3)

- ▶ TMG and the Japanese Government provide various support programs to encourage foreign companies to enter the Japanese market.

### Support by Tokyo Metropolitan Government

#### ● Financial One-Stop Support Service <sup>\*1</sup>

- Provides information and advice regarding Japanese financial regulations and required procedures such as business registration and acquisition of financial license.
- Supports business matchups and other necessary procedure in establishment of the business in Tokyo.

#### ● Tokyo Financial Award - Financial Innovation Category and ESG Investment Category <sup>\*2</sup>

- Financial Innovation: Awards for financial businesses that develop and provide innovative financial products and services that help solve the needs and challenges of residents and businesses in Tokyo
- ESG Investment: Awards for financial institutions which implement SDGs-related corporate management and ESG investment.

#### ● Publication of “Guidance to the Asset Management Industry in Japan” in English <sup>\*3</sup>

- Explains Japanese financial laws and regulations, application procedures for registration as a Financial Instruments Business Operator, etc.

#### ● Subsidy for Initial Expenses of Newly-established Independent Asset Manager <sup>\*4</sup>

- Provides subsidies to reduce the burden on initial expenses such as the costs in terms of middle and back-office operation, legal costs, system cost etc.

Source: Created based on the publicized information such as the press release and websites of TMG (as of Jul. 4, 2022)

• <sup>\*1</sup> Tokyo Metropolitan Government, [“Financial One-Stop Support Service”](#), viewed on September 12, 2022

• <sup>\*2</sup> Tokyo Metropolitan Government, [“Financial Innovation Category and ESG Investment Category”](#), viewed on September 12, 2022

• <sup>\*3</sup> Tokyo Metropolitan Government, [Guidance to the Asset Management Industry in Japan](#), viewed on September 9, 2022

• <sup>\*4</sup> Tokyo Metropolitan Government, [subsidy for “Outsourcing Middle and Back Office Operations, etc”](#) viewed on September 9, 2022

Converted as 1 USD = 135 JPY (as of Jul. 4, 2022)

# 3. Support for overseas firms and Regulatory changes

## 3-1. Support for overseas firms: Market entry support from the Japanese government and the Tokyo Metropolitan Government for foreign companies (3/3)

- ▶ TMG and the Japanese Government provide various support programs to encourage foreign companies to enter the Japanese market.

### Support by the Japanese Government

- **Release of the “Asset Managers & FinTech Companies Registration Guidebook”** \*1

- Explains Japanese financial laws and regulations, application procedures for registration as a Financial Instruments Business operator, etc. in English.

- **Release of the “Guidebook for Registration of Investment Management Businesses and Other Financial Instruments Businesses”** \*2

- Explains the types of registration, etc. required for major business schemes related to asset management.
- Outlines the registration examination procedures and registration requirements.

- **English one-stop services for financial administration** \*3

- Established the "Financial Market Entry Office" to provide one-stop support in English for the registration of overseas asset management companies entering the Japanese market.
  - Pre-registration support: Consultation on legal issues and business models prior to registration as a Financial Instruments Business operator, as well as introductions to the above-mentioned "Guidebook for Registration of Investment Management Businesses and Other Financial Instruments Businesses".
  - Registration support: Facilitation of registration in English if certain conditions are met.
  - Post-registration supervision: Supervision services in English for companies that have completed the registration procedures.

- **Tax reform in FY2021**

- Corporation Tax: Exempt from 30% tax on executive compensation of asset managers
- Inheritance Tax: Exempt from tax on overseas assets owned by foreign nationals who have resided in Japan for more than 10 years
- Income Tax: Reduction of tax rate on "profits distributed in excess of equity" to a flat rate of 20%

Sources:

• Tokyo Metropolitan Government, *Subsidy for setting up a base of operations for foreign financial companies, Subsidy for supporting business infrastructure of foreign financial companies*, viewed on May 1, 2020

\*1 Tokyo Metropolitan Government, *English Guide to Financial License Registration Procedures*, viewed on May 1, 2020

\*2 Financial Services Agency, *Concerning the Guidebook for Investment Management Business Registration Procedures*, Jan. 10, 2020

\*3 Financial Services Agency, *Integrated Efforts by the Tokyo Metropolitan Government and the Financial Services Agency to Attract Overseas Financial Businesses*, Mar. 31, 2017



# 3. Support for overseas firms and Regulatory changes

## 3-1. Support for overseas firms: Successful Market Entry by Foreign Companies

- ▶ Numerous foreign companies have succeeded in developing successful asset management businesses in Japan.

*"Getting the license was a lot faster and easier than expected"*  
*—Major International Asset Manager—*

	Two Sigma	Tikehau Capital	Nuveen	Federated Hermes
Headquarters	USA	France	USA	UK
Entry Year	2018	2019	2019	2022
Business	<ul style="list-style-type: none"> <li>AI-based services for institutional investors</li> </ul>	<ul style="list-style-type: none"> <li>Alternative asset management for institutional investors</li> </ul>	<ul style="list-style-type: none"> <li>Multi-boutique business model with several subsidiaries.</li> </ul>	<ul style="list-style-type: none"> <li>Investment management for equities, bonds, alternative assets etc.</li> </ul>
Points of Note	<ul style="list-style-type: none"> <li>Two Sigma has been collaborating with Japanese investors for many years, so their expansion into Japan will contribute to sustained service provision</li> </ul>	<ul style="list-style-type: none"> <li>Utilized "Invest Tokyo" program, offered by Tokyo Metropolitan Government</li> </ul>	<ul style="list-style-type: none"> <li>Nuveen's Japan expansion was in part encouraged by Tokyo Government's push to attract foreign asset managers under its "Global Financial City: Tokyo" Vision</li> </ul>	<ul style="list-style-type: none"> <li>Utilized FSA's "Financial Market Entry Office" to apply for a financial license in English</li> <li>Building its Japan brand based on its strengths in ESG investment management</li> </ul>

Sources: Each company's website and press releases

# 3. Support for overseas firms and Regulatory changes

## 3-1. Support for overseas firms: English and one-stop services for financial administration

- ▶ The Financial Services Agency (FSA) and Local Finance Bureaus have established the "Financial Market Entry Office" (FMEO) to provide one-stop services including prior consultation and support for registration procedures targeting foreign asset management companies entering the Japanese market.
- ▶ The office aims to promote the entry of foreign companies into the Japanese market by reducing language barriers.

Issue	Registration procedures for foreign companies entering Japan, as well as the procedures with government post-registration, had to be conducted Japanese, making the application process time-consuming due to language barriers.
Outline	<p>Through the Financial Market Entry Office, a series of procedures, from pre-registration consultation to post-registration supervision, are now available in English, allowing more convenient registration for overseas asset management companies etc.</p> <div> <div> <b>Financial Market Entry Office</b>  (Jointly established by FSA and the Local Finance Bureaus) </div> <div> </div> </div> <ul style="list-style-type: none"> <li>• Pre-registration consultation service <ul style="list-style-type: none"> <li>• Online pre-registration consultation from overseas is available via video meeting.</li> </ul> </li> <li>• Support for registration application procedures <ul style="list-style-type: none"> <li>• Target: Persons involved in investment management or investment advisory services in foreign countries</li> <li>• Documents: Registration application/change form, notification of concurrent employment, business report, explanatory documents, notification of suspension or discontinuation of business, etc.</li> </ul> </li> <li>• Supervision and inspection of overseas asset management companies, etc.</li> <li>• Public relations and promotional activities</li> </ul>
License registration via FMEO	<p>12 companies in total (as of Aug 2022)</p> <ul style="list-style-type: none"> <li>• Citadel Securities obtained a Type I Financial Instruments Business license (registered in Aug. 2022)</li> <li>• Minerva Growth Partners obtained an Investment Advisory and Agency Business license (registered in Feb. 2022)</li> <li>• EQT Partners Japan obtained a Type II Financial Instruments Business license (registered in Dec. 2021)</li> </ul>
Impact on asset managers	Traditionally, it has been a burden for asset managers considering entering the Japanese market to conduct interviews and apply for documents in Japanese; but making these services available in English will facilitate market entry market and license acquisition.

### Sources

- Financial Services Agency, *Concerning English and one-stop services for financial administration*, updated on Jan. 12, 2021

# 3. Support for overseas firms and Regulatory changes

## 3-2. Regulatory changes: Tax reform in FY2021

- ▶ The tax reform in FY2021 includes amendments to reduce the tax burden on foreign companies, providing further incentive to enter the Japanese market.

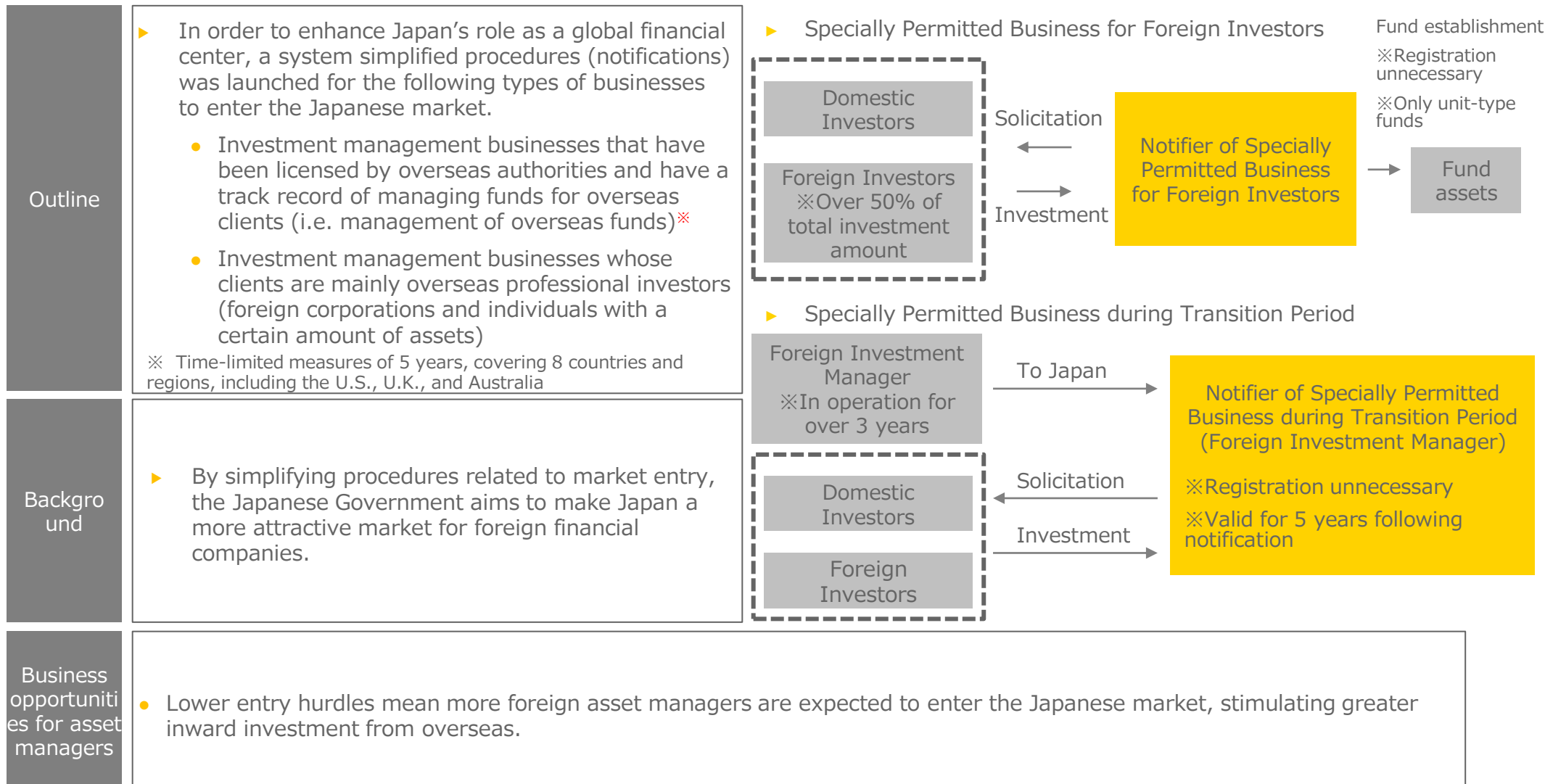
	(Tax rate)	(Before the reform)	(Tax rate)	(Content of the reform)
Outline	Corporation Tax	<ul style="list-style-type: none"> <li>30%</li> <li>Performance-based compensation for executives of unlisted companies <u>could not be expensed</u>.</li> </ul>	0%	<ul style="list-style-type: none"> <li>Performance-based remuneration for executives of unlisted companies, etc., <b>primarily engaged in investment management, can be recorded as a necessary expense</b> if certain requirements are met.</li> </ul>
	Inheritance Tax	<ul style="list-style-type: none"> <li>0~55%</li> <li>Overseas assets owned by foreign nationals who have resided in Japan for more than 10 years were <u>subject to Inheritance Tax</u>.</li> </ul>	0%	<ul style="list-style-type: none"> <li>In the event of the death of a foreign national who resided in Japan for employment, etc., regardless of the period of residence in Japan, <b>overseas assets</b> acquired by his/her family members, etc., residing abroad through inheritance <b>are exempted from Inheritance Tax</b>.</li> </ul>
	Income Tax	<ul style="list-style-type: none"> <li>0~55%</li> <li><u>Unclear</u> what is taxable on profits distributed in excess of equity interest</li> </ul>	20%	<ul style="list-style-type: none"> <li><b>Clarified</b> that "profit distributed in excess of equity interest" is subject to <b>separate taxation (a flat rate of 20%)</b> as profit from the sale of equity shares in certain cases.</li> </ul>
<ul style="list-style-type: none"> <li>(Others) When investing in a Japanese fund through a foreign fund, etc., foreign investors are exempted from filing a tax return in Japan even if the ownership interest in the foreign fund, etc. is 25% or more, but the ownership interest per investor is less than 25%.</li> </ul>				
Impact on asset managers	<ul style="list-style-type: none"> <li>(Corporation Tax) A 30% tax on executive compensation of asset management companies will be exempted, enabling asset managers to provide their executives with full compensation.</li> <li>(Inheritance Tax) Foreign nationals who have resided in Japan for more than 10 years will be exempted from taxation on their overseas assets.</li> <li>(Income Tax) The amount of taxation on "profits distributed in excess of equity interest" will be reduced to a flat rate of 20%.</li> </ul>			

Sources:

# 3. Support for overseas firms and Regulatory changes

## 3-2. Regulatory changes: Specially Permitted Business for Foreign Investors, etc. / Specially Permitted Business during Transition Period

- ▶ On November 22, 2021, a system of procedures (notifications) for investment management businesses for overseas investors, etc. in Japan was established.
- ▶ Simplified procedures will facilitate the entry of overseas asset managers into the Japanese market.



Source: \*1 Financial Services Agency, *Bill for Partially Amending the Banking Act, etc. for Ensuring Reinforcement and Stability of Financial Functions in Response to Socioeconomic Changes due to the Impact of the COVID-19 Infection*, Mar. 2021

## 4. Market entry: Entity structures and licenses

### 4-1. Company Foundation Types and their Legal Positions (1/3)

- ▶ The legal requirements for companies in Japan differ according to their foundation type.

#### Different Company Types and their Legal Positions at the Time of Market Entry (excerpt)

Company type at the time of entry	Capital	Number of investors	Relationship with foreign companies	Liability of investors/ headquarters to creditors of the company	Regular general meeting of stakeholders (employees)	Transfer of equity holding	Availability of listing stocks (equity holding)
<b>Representative Office</b>	N/A		An office in Japan to gather and provide information by an authorized agency of the foreign company  Generally, no autonomous decision-making authority	No maximum amount	No need to hold the meeting	No equity holding	No equity holding
<b>Branch</b>			An office in Japan to conduct business determined by an authorized agency of the foreign company  Generally, no autonomous decision-making authority	No maximum amount	No need to hold the meeting	No equity holding	No equity holding
<b>Subsidiary (Japanese corporation)</b>  <b>joint-stock corporation (Kabushiki Kaisha)</b>	1 yen (≒1 Penny) or more	1 investor or more	Legal entity separate from foreign company  Foreign companies are liable as legally responsible investors for debts and liabilities arising from the activities of their subsidiaries	Up to the amount of investment	Need to hold the meeting annually	No restrictions in principle  Articles of Incorporation*1 often stipulate that approval of the board of directors or general meeting of shareholders is required for the transfer of shares	Available
<b>Subsidiary (Japanese corporation)</b>  <b>Limited liability company</b>					No need to hold the meeting unless specified in the articles of incorporation	In principle, the consent of all investors (employees) is required, but other provisions can be made in the articles of incorporation	Not available

Definition: \*1 Articles of Incorporation summarize the rules for establishing a company organization

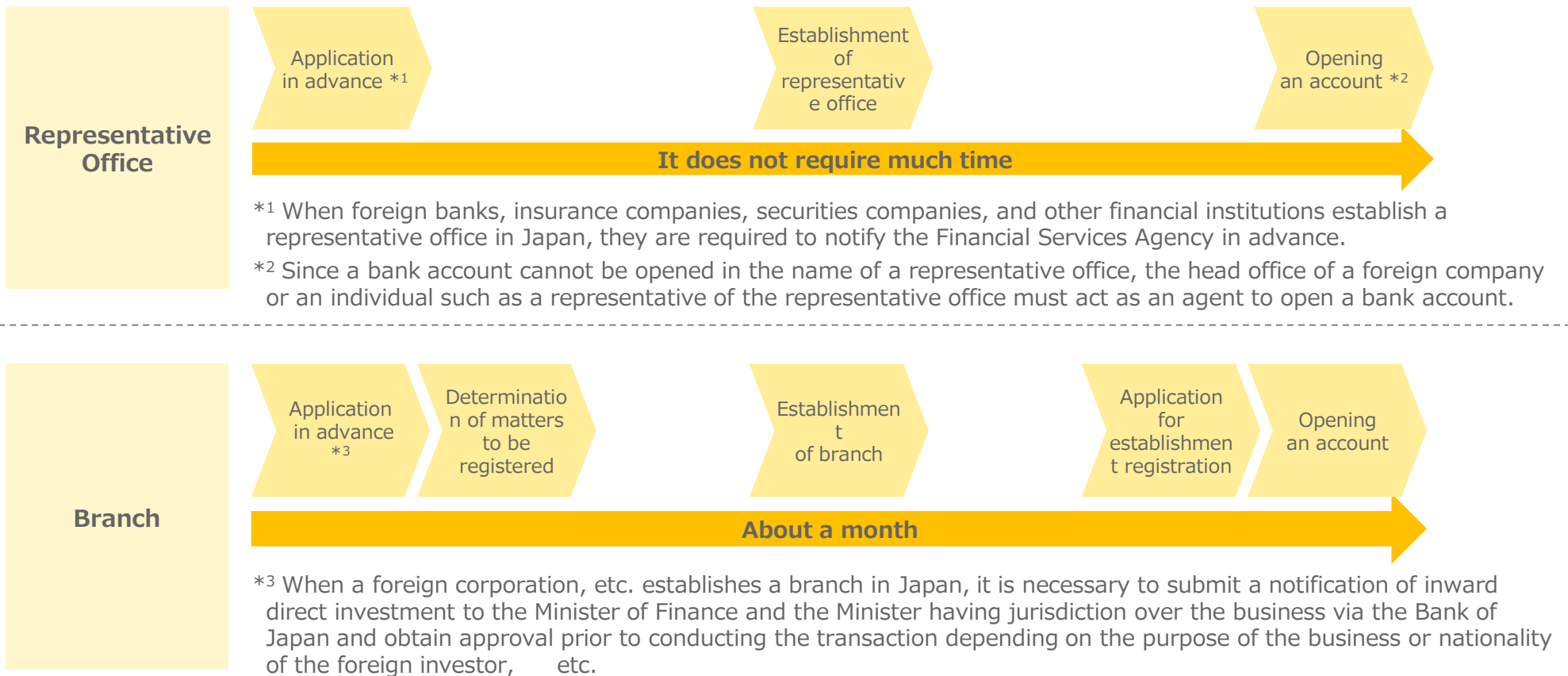
## 4. Market entry: Entity structures and licenses

### 4-1. Company Foundation Types and their Legal Positions (2/3)

- ▶ When establishing a representative office for the purpose of gathering and providing information, there is no need to register the office under the Companies Act, and no need to notify the tax office as it is not subject to corporate income tax, making it a simpler procedure than establishing a branch office.
- ▶ Representative offices cannot carry out business activities but are useful as a preparatory stage before full-scale entry into a market.

#### Company Type at the Time of Entry

#### General Flow of Procedures by Types of Company Foundation\*

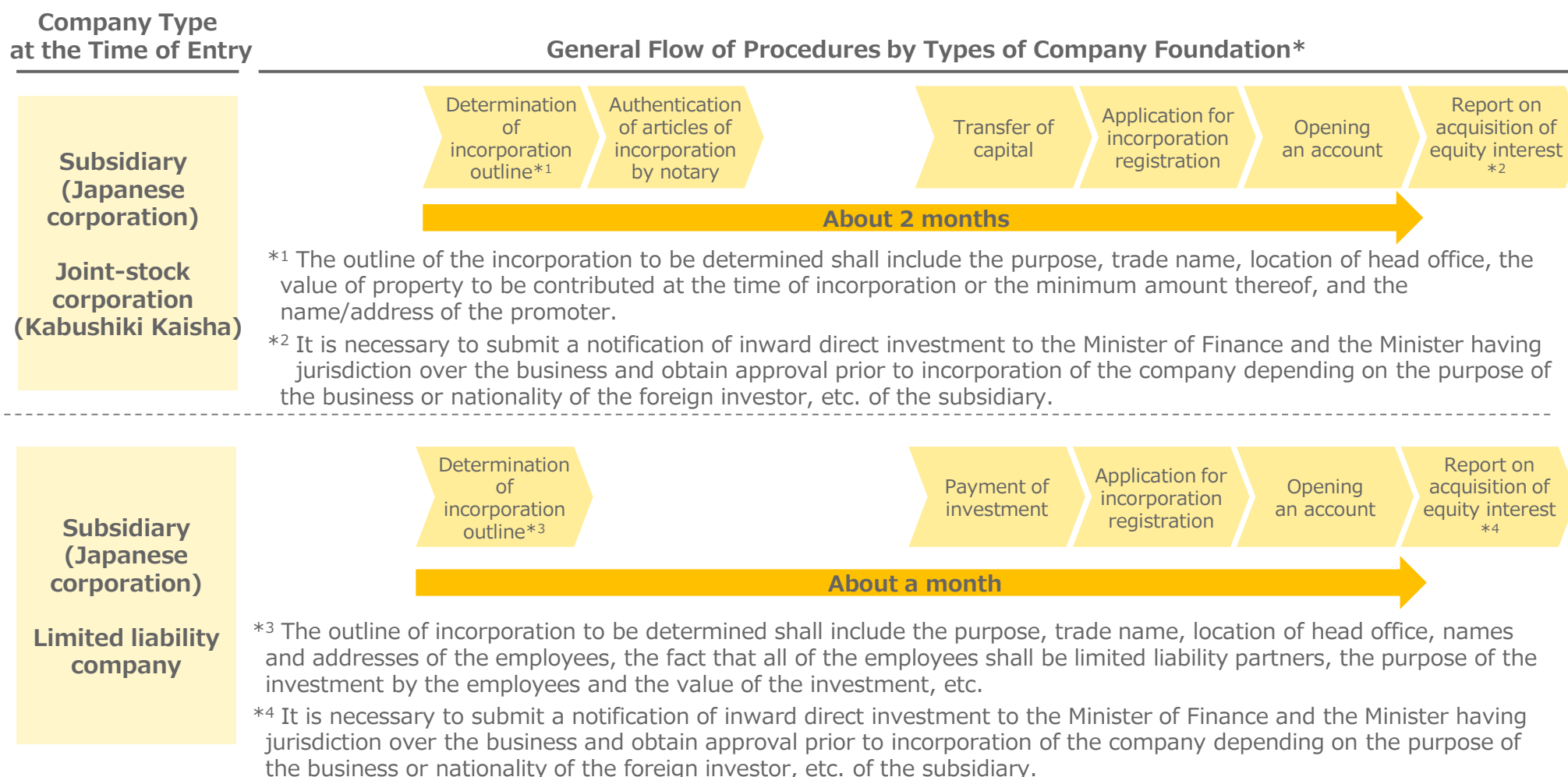


\* Note that the above is only a general flow, which may differ due to the scale, complexity or any other circumstances of the business

# 4. Market entry: Entity structures and licenses

## 4-1. Company Foundation Types and their Legal Positions (3/3)

- ▶ When establishing a Japanese corporation, it is necessary to select the type from those stipulated in the Companies Act, in accordance with the nature and purpose of the planned business activities.
- ▶ While joint-stock companies issue shares and can solicit investors, LLC is an equity company where each employee has the right to vote, enabling greater operational autonomy.



\* Note that the above is only a general flow, which may differ due to the scale, complexity or any other circumstances of the business

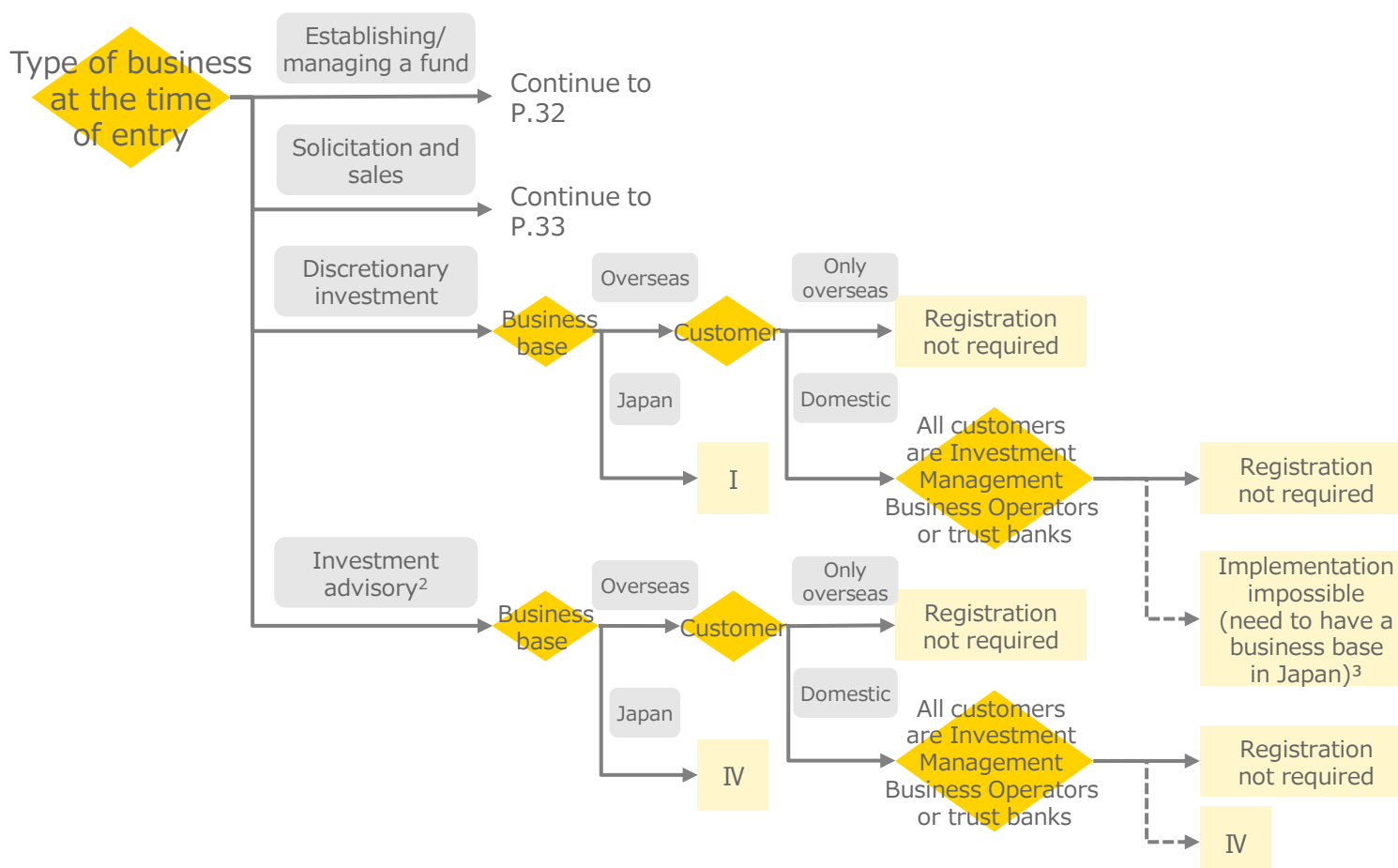


# 4. Market entry: Entity structures and licenses

## 4-2. Required License Type According to Activity (1/5)

- For discretionary investment management and investment advisory business, whether or not a license is required and the type of license needed vary depending on the location and client conditions.

Flowchart to Determine Types of Registration by Activity in Japan<sup>1</sup>



Types of Applicable Licenses

Types	Applicable License
I	Investment Management Business
	Investment Management Business for Qualified Investors
I'	Specially Permitted Businesses for Qualified Institutional Investor, etc. (Self Management Business)
I'	Specially Permitted Business for Foreign Investors, etc.
II	Type I Financial Instruments Business
	Type I Small Amount Electronic Public Offering Service (For crowdfunding etc.)
III	Type II Financial Instruments Business
	Type II Small Amount Electronic Public Offering Service (For crowdfunding etc.)
III'	Specially Permitted Businesses for Qualified Institutional Investor, etc. (Self-offering business)
IV	Investment Advisory and Agency Business

—————> Yes/Requirement satisfied  
 - - - - -> No/Requirement not satisfied

<sup>1</sup> "Investment advisory business" refers to providing advice regarding "values, etc. of Securities" or "investment decisions based on analysis of values, etc. of financial instruments", and is different from the investment management business in that customers make the final investment decisions and take investment actions by themselves.

<sup>2</sup> To be registered as an Investment Management Business Operator, you need to have a business base in Japan. You cannot conduct business from an overseas base.

<sup>3</sup> Note that the flowcharts are provided for the purpose of helping you easily check whether/what type of registration is necessary only in regard to typical cases.

They do not cover all the possible cases, options and requirements under relevant laws and regulations.

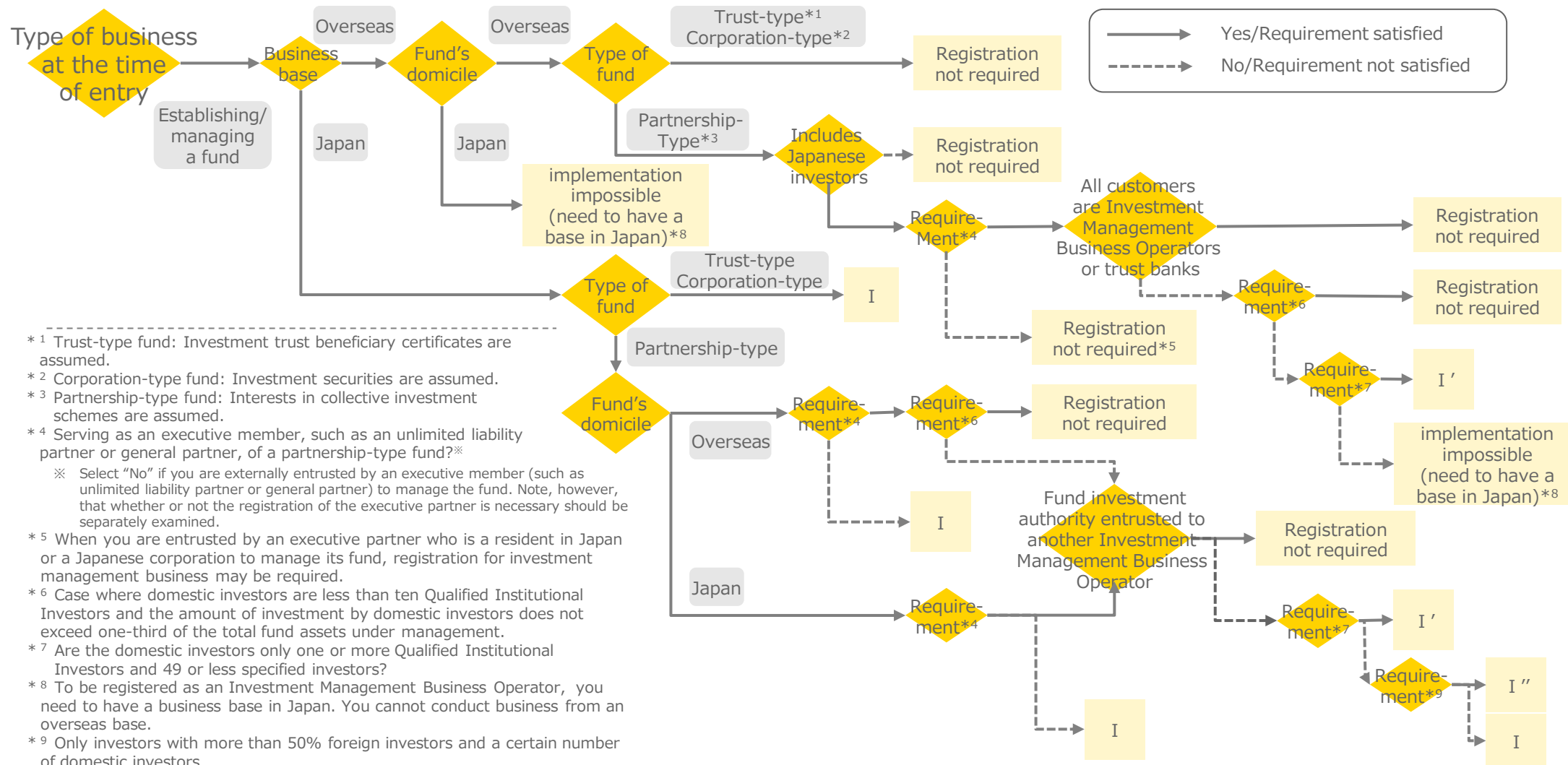


#### 4-2. Required License Type According to Activity (2/5)

- For fund formation and management whether or not a license is required and the t

- ### Flowchart to Determine Types of Registration by Activity in Japan

Copyright © Pearson Education, Inc., or its associated publisher(s). All rights reserved.

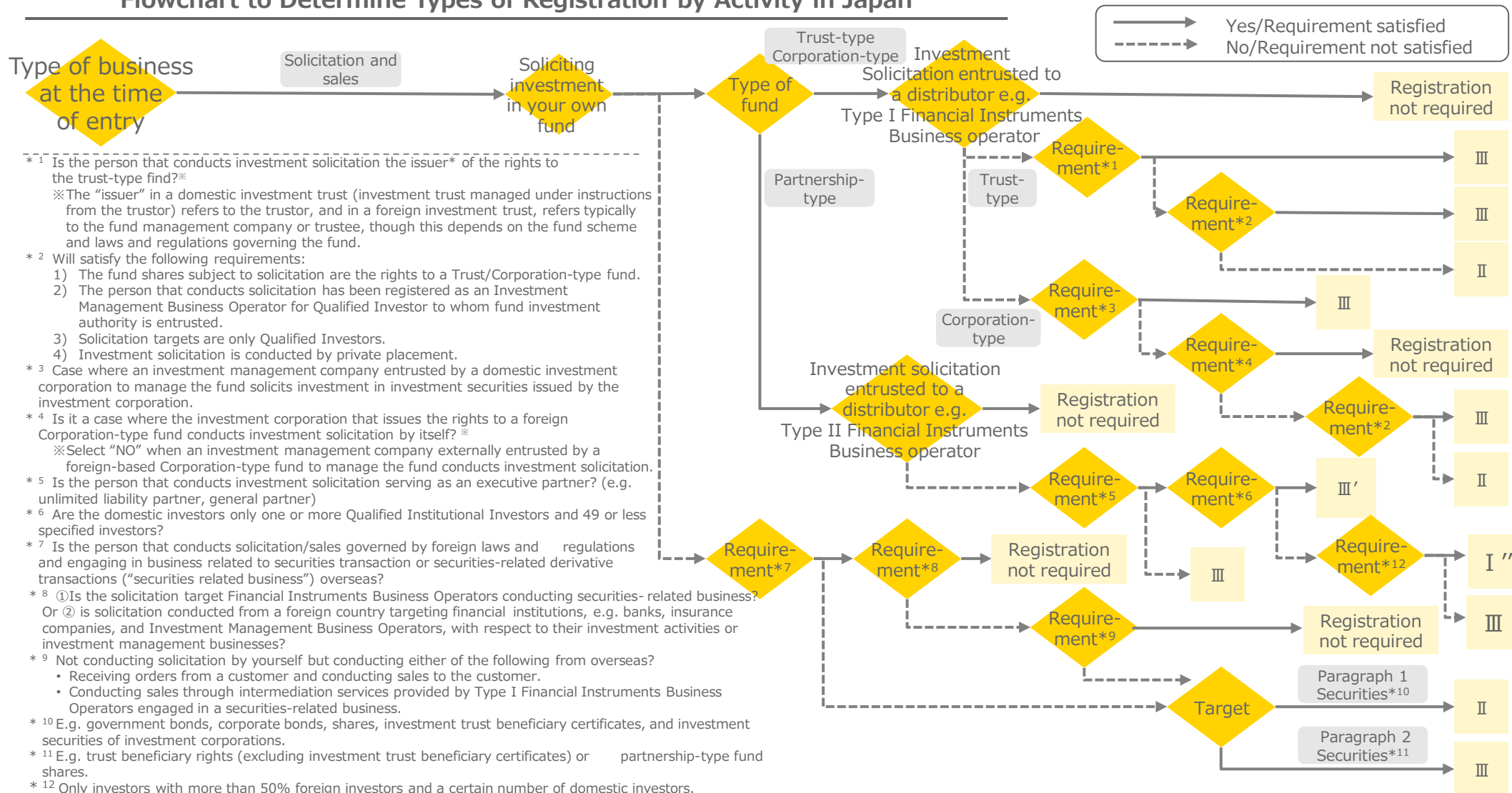


Sources: Financial Service Agency, Guidebook for Investment Management Business Registration Procedure, pp.6-17, Jun. 2022

## 4-2. Required License Type According to Activity (3/5)

- For sales or solicitation, whether or not a license is required and the type of license needed vary depending on various conditions, such as the type of manager and the type of fund.

## Flowchart to Determine Types of Registration by Activity in Japan



Sources: Financial Service Agency, Guidebook for Investment Management Business Registration Procedure, pp.6-17, Jun. 2022

# 4. Market entry: Entity structures and licenses

## 4-2. Required License Type According to Activity (4/5)

### Overview and Examples of Activities by License

Types	Applicable Licenses	Overview of activities	Examples
I	Investment Management Business	Management of assets as an investment in securities, etc., pursuant to a discretionary investment agreement or a consignment agreement with an investment corporation for asset management Management of money and other assets contributed through mutual funds, trust beneficiary rights and collective investment schemes as investment in securities, etc.	Management services for so-called J-REITs and investment trusts  Receive assets from a customer and r buy or sell shares at the discretion of the trader without seeking instructions from the customer each time
	Investment Management Business for Qualified Investors	Same as above, except that all clients and rights holders shall be certain professional investors. It is necessary to implement appropriate measures to prevent the total amount of investment assets from exceeding 20 bn yen (≐ USD 182 million) and prevent any person other than Qualified Investors from becoming a rights holder	Discretionary investment management business and asset management activities in which only institutional investors, such as banks, and foreign corporations are clients or rights holders
I'	Specially Permitted Businesses for Qualified Institutional Investor, etc. (Self Management Business)	Self-management of funds from investors of one or more qualified institutional investors and 49 or less qualified institutional investors meeting certain requirements	Investing the funds contributed by the aforementioned persons (left column) through a silent partnership investment in securities
II	Type I Financial Instruments Business	Buying, selling, and acting as an agent or intermediary for the Paragraph 1 Securities such as stocks and investment trust beneficiary certificates Handling the Public Offering or Private Placement of Paragraph 1 Securities	Acting as an intermediary in the financial markets for the sale of listed shares ordered by a client.  Soliciting investors to acquire such shares on behalf of the issuing company
	Type I Small Amount Electronic Public Offering Service (For crowdfunding etc.)	Handling of unlisted shares, etc. offered via the Internet in small monetary amounts	Solicitation of venture company stocks through the Internet and recruiting investors

Sources: Financial Service Agency, [Guidebook for Investment Management Business Registration Procedure](#), pp.6-17, Jun. 2022

## 4. Market entry: Entity structures and licenses

### 4-2. Required License Type According to Activity (5/5)

#### Overview and Examples of Activities by License

Types	Applicable Licenses	Overview of activities	Examples
III	Type II Financial Instruments Business	Buying, selling, and acting as agent or intermediary for Paragraph 2 Securities such as trust beneficiary interests and collective investment scheme interests Handling the Public Offering or Private Placement of Paragraph 2 Securities Solicitation of collective investment scheme interests issued by the company itself	Intermediary service for selling and buying beneficiary rights on REITs Solicitation of investors to acquire equities in a silent partnership on behalf of the silent partnership operator Conducting business other than acquiring securities by soliciting investors in silent partnerships on one's own
	Type II Small Amount Electronic Public Offering Service (For crowdfunding etc.)	Handling of collective investment schemes offered via the Internet in small monetary amounts	Solicitation of what is called social lending (lending with funds collected by equity investment via a silent partnership)
III'	Specially Permitted Businesses for Qualified Institutional Investor, etc. (Self-offering business)	Solicitation of collective investment scheme interests issued to one or more qualified institutional investors and 49 or less investors meeting certain requirements	Solicitation of equity investment in a silent partnership on the premise of conducting the above self-management business
IV	Investment Advisory and Agency Business	Advisory service for investment decisions based on the analysis of the value of securities and financial instruments, etc. Acting as an agent or intermediary for entering into a discretionary investment contract or an investment advisory contract	Providing advice on the value and future price trends of the shares that the customer buys themselves To find other investment advisors or investment managers and refer customers to them

Sources: Financial Service Agency, [Guidebook for Investment Management Business Registration Procedure](#), pp.6-17, Jun. 2022

## 4. Market entry: Entity structures and licenses

### 4-3. Conditions by License Type

Types	Applicable Licenses	Business Type	Asset-related Requirements	Number of Allocated Personnel (reference case disclosed by the FSA)
I	Investment Management Business	Limited to Joint Stock Companies (exclusively ones that have a board of directors and auditors, audit committee, etc. or nominating committee, etc.) or a branch office of an equivalent foreign corporation (limited liability companies and branches are not permitted)	Capital: 50m yen (≒USD 454k) Net assets: 50m yen (≒USD 454k)	<b>Six-person structure</b> <sup>*1</sup> <ul style="list-style-type: none"> <li>• Officer and Asset Manager (2)</li> <li>• Asset Manager</li> <li>• Officer, personnel responsible for compliance and personnel responsible for various management operations (excluding internal audit)</li> <li>• Corporate Auditor (responsible for internal audit)</li> <li>• Part-time Officer</li> </ul>
	Investment Management Business for Qualified Investors <sup>*2</sup>	Limited to Joint Stock Companies (exclusively ones that have auditors, audit committee, etc. or nominating committee, etc.) or a branch office of an equivalent foreign corporation (limited liability companies and branches are not permitted)	Capital: 10m yen (≒USD 91k) Net assets: 10m yen (≒USD 91k)	<b>Three-person structure</b> <sup>*3</sup> <ul style="list-style-type: none"> <li>• Officer and Asset Manager</li> <li>• Officer and personnel responsible for various management operations (excluding internal audit)</li> <li>• Corporate Auditor (responsible for internal audit)</li> </ul>
I'	Specially Permitted Businesses for Qualified Institutional Investor, etc. (Self Management Business)	Joint Stock companies, limited liability companies, branches	N/A	N/A
II	Type I Financial Instruments Business	Limited to Joint Stock Companies (exclusively ones that have a board of directors and auditors, audit committee, etc. or nominating committee, etc.) or a branch office of an equivalent foreign corporation (limited liability companies and branches are not permitted)	Capital: 50m yen (≒USD 454k) Net assets: 50m yen (≒USD 454k) Capital adequacy ratio: 120%	N/A
	Type I Financial Instruments Business that engages only in Type I Small Amount Electronic Public Offering Service	Same as above	Capital: 10m yen (≒USD 91k) Net assets: 10m yen (≒USD 91k)	N/A

\* 1 Cases where companies manage funds for foreign institutional investors (investment mandate) only; do not solicit investors; and are assumed to have one to three clients

\* 2 Investment management business in which only certain professional investors are the rights holders; and the total value of all assets under management does not exceed 20bn yen (≒USD 182m)

\* 3 Cases companies manage funds for foreign institutional investors (investment mandate management) only; and do not solicit investors. Compliance work is outsourced to law firms

Sources: Financial Service Agency, Guidebook for Investment Management Business Registration Procedure, pp.54-55, Jun. 2022

## 4. Market entry: Entity structures and licenses

### 4-3. Conditions by License Type

Types	Applicable Licenses	Business Type	Asset-related Requirements	Number of Allocated Personnel (reference case disclosed by the FSA)
III	Type II Financial Instruments Business	Joint Stock Companies, limited liability companies, branches	Capital: 10m yen (≒USD 91k) Deposit: 10m yen (≒USD 91k)* <sup>1</sup>	<b>Six-person structure</b> <sup>*2</sup> <ul style="list-style-type: none"> <li>• Officer and Sales Representative (2)</li> <li>• Officer and personnel responsible for internal audit</li> <li>• Personnel responsible for compliance</li> <li>• Personnel responsible for various management operations (excluding internal audit) (2)</li> </ul>
	Type II Financial Instruments Business that engages only in Type II Small Amount Electronic Public Offering Service	Same as above	Capital: 5m yen (≒USD 46k)	N/A
III'	Specially Permitted Businesses for Qualified Institutional Investor, etc. (Self Management Business)	Same as above	N/A	N/A
IV	Investment Advisory and Agency Business	Same as above	Deposit: 5m yen (≒USD 46k) (limited to providing investment advisory and agency services)* <sup>3</sup>	<b>Three-person structure</b> <sup>*4</sup> <ul style="list-style-type: none"> <li>• Officer, personnel responsible for compliance and Sales Representative</li> <li>• Personnel responsible for investment advisory</li> <li>• Personnel responsible for client management</li> </ul>

\*<sup>1</sup> For individuals only

\*<sup>2</sup> Cases only involving selling (private placement) of overseas fund interests (domestic qualified institutional investors, banks, insurance companies, investment management companies, trust banks, etc.) as stipulated in Article 2, paragraph 2, item 6 of the Act) are assumed.

\*<sup>3</sup> To conduct other financial instruments businesses, it is necessary to meet the property requirements of the financial instruments business concerned, but a deposit is not required.

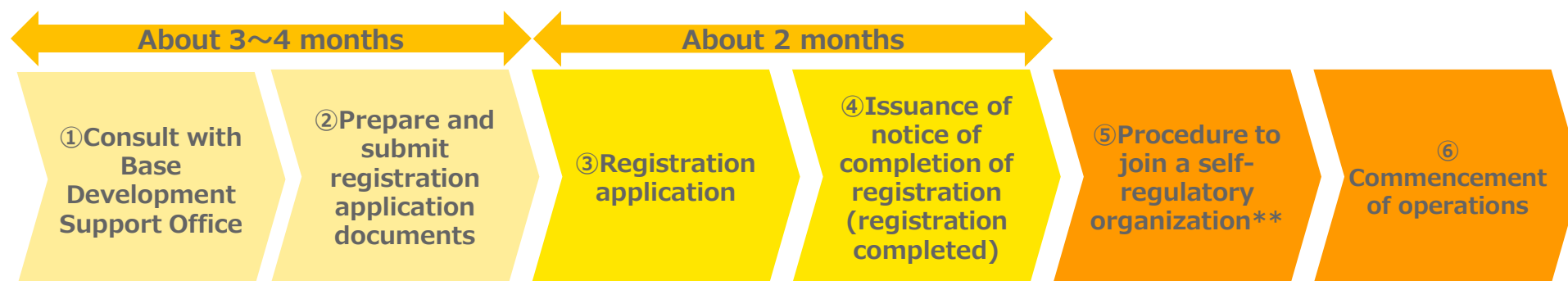
\*<sup>4</sup> Cases where (i) investment advisory services for company's overseas offices and (ii) intermediary services for discretionary investment contracts between company's overseas offices and domestic institutional investors are assumed.

Sources: Financial Service Agency, [Guidebook for Investment Management Business Registration Procedure](#), pp.54-55, Jun. 2022

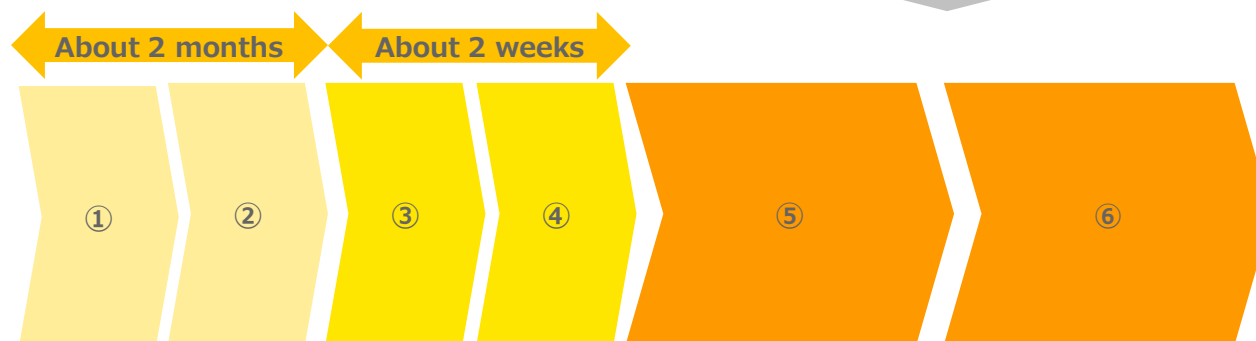
## 4. Market entry: Entity structures and licenses

### 4-4. Typical Timeline for License Acquisition\*

- ▶ To facilitate the process from prior consultation to registration, applicants need to determine and give sufficient consideration at an early stage to the (i) specific nature and method of business to be conducted, (ii) personnel structure, and (iii) internal control system.



With support from the Financial Market Entry Office,  
registration can be completed in about half the time normally required.



\*\*So that companies can start operations promptly after registration is completed, they should discuss joining procedures with the relevant association from the stage of prior consultation with the local finance bureau/local finance office.  
For details on how to join an association, please refer to their website or contact them directly.

\* Note that the above is only a general flow, which may differ due to the scale, complexity or any other circumstances of the business

# Annex

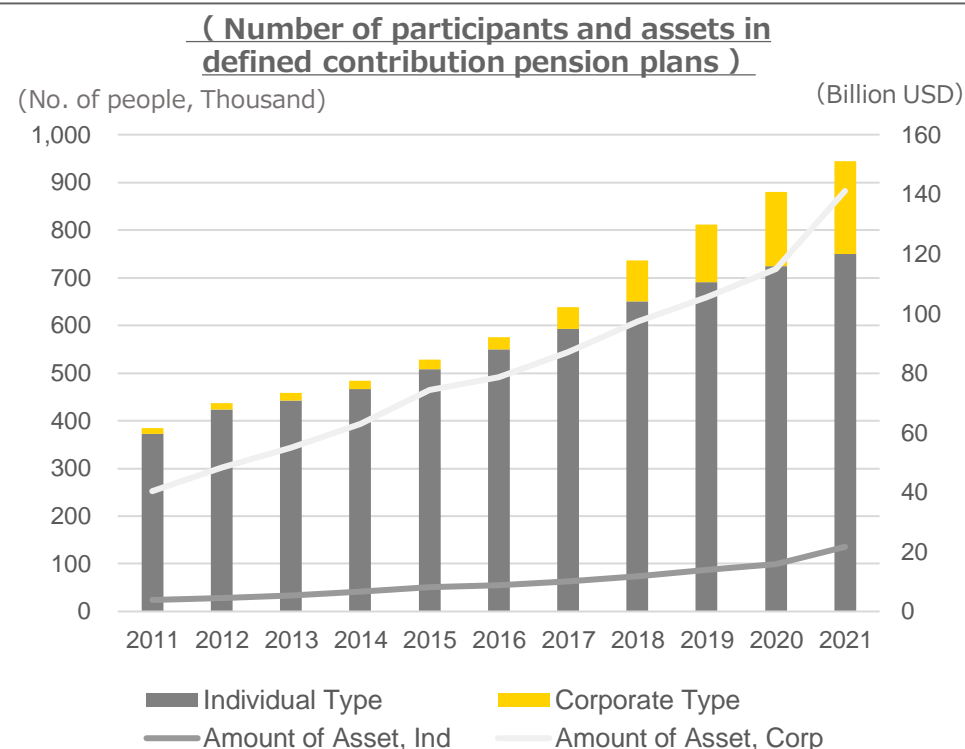


# The Latest Trends

## Annex 1. Amendments to the law concerning Defined-Contribution Pension Plans

- ▶ In June 2020, eligibility ages for the Defined-Contribution Pension Plan (individuals and corporations) were extended and enrolment requirements were eased, to extend people's working life and increase post-retirement savings.
- ▶ For asset management companies, demand for investment advisory and asset management is expected to increase.

Outline	<p><b>(Defined-Contribution Pension Plan) *</b></p> <ul style="list-style-type: none"> <li>• A type of private pension plan that can be voluntarily joined by eligible individuals and in which subscribers themselves are responsible for the investment and management of the pension funds, with the future benefit amount is determined by investment performance</li> <li>✓ <u>Individual type (iDeCo)</u> <ul style="list-style-type: none"> <li>• Individuals contribute premiums and directly manage their assets</li> <li>• Number of subscribers: Approx. 1.93 million as of March 2021</li> <li>• Contribution limit: 12,000 to 68,000 JPY per month</li> </ul> </li> <li>✓ <u>Corporate type</u> <ul style="list-style-type: none"> <li>• Employers contribute premiums, and employees, as subscribers, are responsible for directing their own asset management.</li> <li>• Number of subscribers: Approx. 7.5 million as of February 2021</li> <li>• Contribution limit: 55,000 JPY per month</li> </ul> </li> </ul>
Market impacts	<ul style="list-style-type: none"> <li>• In response to the easing of the requirements for enrollment in the Defined-Contribution Pension Plan, financial institutions have started to compete in lowering trust fees (investment management fees) and account management fees ** in order to attract new customers.</li> <li>• The increased number of eligible participants is expected to stimulate active asset building among a wider range of people.</li> </ul>
Business opportunities for asset managers	<ul style="list-style-type: none"> <li>• The increased number of investors will drive up demand for investment and asset management advisory services.</li> </ul>



Note: \*Private pension plans comprise the Defined-Contribution Pension Plan and the Defined-Benefit Corporate Pension Plan. The latter is a pension system in which financial institutions, under contract with the company concerned, manage and administer the plan where future benefits are predetermined.

\*\*Trust fees refers to an investment fee proportional to the balance of the account, while account management fees refers to a fixed monthly fee to maintain the account.

# The Latest Trends

## Annex 2. Expansion of commission-free fund sales

- ▶ Since SBI Securities announced commission-free trading of domestic stocks<sup>\*1</sup> in October 2019, the service has been expanding among the major online securities firms.
- ▶ In the face of intensifying price competition among online brokerages, asset management firms offering online trading to general investors need to consider differentiation strategies based on cost reduction.

Outline	<ul style="list-style-type: none"><li>● In October 2019, SBI Securities announced the introduction of commission-free trading of domestic stocks*<sup>1</sup>, which began expanding among the major online securities firms.</li><li>● Particularly, in addition to domestic stocks and investment trusts, commission-free trading has been extended to margin transactions and overseas listed trusts.</li></ul>	<div>■ Status of major online securities companies' responses to the introduction of commission-free trading</div> <div>【Legend】 ○ : Free : Charged</div> <table><tr><th>Online security companies</th><th>Stocks*<sup>2</sup> (Physical )</th><th>Investment Trust</th><th>General Margin*<sup>3</sup></th><th>One-day Margin*<sup>4</sup></th><th>Japan-U.S. ETF</th></tr><tr><td>SBI Securities</td><td>○</td><td>○</td><td>○</td><td>○</td><td>○</td></tr><tr><td>Rakuten Securities</td><td>○</td><td>○</td><td>○</td><td>○</td><td>○</td></tr><tr><td>MONEX, Inc.</td><td>○</td><td>○</td><td>○</td><td>—</td><td>—</td></tr><tr><td>Matsui Securities</td><td>○</td><td>○</td><td>—</td><td>○</td><td>—</td></tr><tr><td>au Kabucom Securities</td><td>○</td><td>○</td><td>○</td><td>—</td><td>○</td></tr></table>						Online security companies	Stocks* <sup>2</sup> (Physical )	Investment Trust	General Margin* <sup>3</sup>	One-day Margin* <sup>4</sup>	Japan-U.S. ETF	SBI Securities	○	○	○	○	○	Rakuten Securities	○	○	○	○	○	MONEX, Inc.	○	○	○	—	—	Matsui Securities	○	○	—	○	—	au Kabucom Securities	○	○	○	—	○
Online security companies	Stocks* <sup>2</sup> (Physical )	Investment Trust	General Margin* <sup>3</sup>	One-day Margin* <sup>4</sup>	Japan-U.S. ETF																																						
SBI Securities	○	○	○	○	○																																						
Rakuten Securities	○	○	○	○	○																																						
MONEX, Inc.	○	○	○	—	—																																						
Matsui Securities	○	○	—	○	—																																						
au Kabucom Securities	○	○	○	—	○																																						
Market impacts	<ul style="list-style-type: none"><li>● The expansion of commission-free trading has led to reductions in online trading fees for general investors.</li><li>● This has resulted in new trading by general investors and increased trading volumes among existing customers.</li></ul>																																										
Business opportunities for asset managers	<ul style="list-style-type: none"><li>● In light of the cost-cutting efforts of major online securities companies, asset management firms providing online trading services to general investors need to differentiate themselves by leveraging the strengths and features of their services.</li><li>● Asset management companies managing investment trusts may need to review their own profit models in the face of moves to reduce or eliminate management fees, in addition to commission-free trading</li></ul> <p>⇒ Asset managers capable of low-cost operations will be able to capture business opportunities through price advantages.</p>																																										

Note: <sup>\*1</sup> Physical transactions: Total daily contract values of 500,000 yen or less are commission-free (2019).

<sup>\*2</sup> Stocks (Physical): Commission-free trading applies to domestic stocks and physical transactions, with total daily contract value limits varying depending on the company.

<sup>\*3</sup> General Margin: ETFs, ETNs, REITs, and infrastructure funds listed in Japan are eligible for commission-free trading.

<sup>\*4</sup> One-day Margin: Commission-free trading is applicable to domestic stocks and margin transactions, with the total daily contract value varying depending on the company.

Sources:

- Nikkei, *SBI Securities to eliminate commissions for stock trading, starting with those under 25.*
- Industry Trend Search (gyokai-search.com), *Market Share, Current Status, and Trends of the Internet Securities Industry (2020 Edition)*
- Nikkei, *The FSA is concerned about a series of "commission-free trading"; officials unveil plans to check the impact on online securities firms.*

# The Latest Trends

## Annex 3. Amendments to the law governing the trading of security tokens and crypto-assets

- ▶ The application from May 2020 of the Financial Instruments and Exchange Act to security tokens\*, which previously had no legal definition, has enabled investors and issuers to trade tokens on a legal basis.
- ▶ Asset managers can expect to see an increase in the number of investors actively trading security tokens, as well as increased demand for advisory services related to security token trading.

Issue	<ul style="list-style-type: none"> <li>Traditionally, due to the lack of a legal definition, security tokens were referred to as a type of crypto asset and their trading was a legal grey area.</li> </ul>				
Outline	<ul style="list-style-type: none"> <li>From May 1, 2020, security tokens have been recognized as financial instruments subject to the Financial Instruments and Exchange Act with a clear legal definition.</li> </ul>				
	Asset type	Major trading	Applicable laws and regulations		
			Japan		(Reference) U.S.
			Before the amendments	After the amendments (After May 1, 2020)	
	Security tokens	Security token trading	No definition	<b>Financial Instruments and Exchange Act</b>	Securities Act
	Crypto assets	Crypto asset derivatives trading	No definition	<b>Financial Instruments and Exchange Act</b>	Commodity Exchange Act
		Physical and margin trading of crypto assets	Payment Services Act	Payment Services Act	State laws
Market impacts	<ul style="list-style-type: none"> <li>The application of the Financial Instruments and Exchange Act to security tokens has created a legal basis for the trading of security tokens, leading to increased market opportunities.</li> <li>While traditional stock exchanges have fixed business hours, security token exchanges operate 24 hours a day, making trading more convenient for investors.</li> </ul>				
Business opportunities for asset managers	<ul style="list-style-type: none"> <li>The development of legislation and exchanges for security tokens are expected to facilitate trading and increase demand for advisory services related to investment, trading, and asset management.</li> </ul>				

Sources: Compiled with reference to the following references

- coindesk JAPAN, *Security Token Business*, May 1, 2020
- JETRO, *The State of Blockchain in the US*, May 31, 2018
- Nomura Institute of Capital Markets Research, *US Regulators' Stance and Challenges on Virtual Currencies*, 2018 Spring

Note:

\*Refers to legal securities that are digitized and issued using electronic technology such as blockchain.

# The Latest Trends

## Annex 4. Japanese Government's "Asset Income Doubling Plan"

- ▶ In the "Basic Policy on Economic and Fiscal Management and Reform (Basic Policy 2022)\*<sup>1</sup> released in June 2022, the "Asset Income Doubling Plan" was formulated to direct the financial assets of Japanese into asset management.
- ▶ Demand for investment advice and asset management is expected to increase in line with the expansion of investment in NISA, iDeCo, etc.

Outline	<ul style="list-style-type: none"><li>▶ Expansion of Nippon Individual Savings Account (NISA)<ul style="list-style-type: none"><li>● New NISA*<sup>2</sup>, a small amount investment tax-exemption scheme, is scheduled to be launched in 2024 or later.</li><li>● The new NISA scheme will expand the tax-exempt investment limit and extend the tax-exempt period and account opening period.</li></ul></li><li>▶ Reform of the individual defined contribution pension scheme (iDeCo)<ul style="list-style-type: none"><li>● Amendments in 2022*<sup>3</sup> will expand the options for the age to start receiving iDeCo benefits, expand the eligible age for joining iDeCo, and lower requirements for iDeCo enrollment for corporate-type DC plan participants.</li></ul></li><li>▶ Creation of a new scheme to direct people's savings into asset management<ul style="list-style-type: none"><li>● Aims to establish a system to facilitate appropriate advice and solicitation by financial instruments business operators, etc.</li></ul></li></ul> <p>(※Specific measures including the above will be formulated at the end of 2022.)</p>	<div><div>NISA</div><table><tr><th rowspan="2"></th><th colspan="2">Tax-exempt investment limit</th><th colspan="2">Tax-exempt period</th><th colspan="2">Account opening period</th></tr><tr><th>Before amendment</th><th>After amendment</th><th>Before amendment</th><th>After amendment</th><th>Before amendment</th><th>After amendment</th></tr><tr><td>A) NISA</td><td>1.2 million yen per year</td><td>1.22 million yen per year</td><td>Maximum 5 years</td><td>Can be transferred to B) upon termination of the left period</td><td>Until 2023</td><td>Until 2028</td></tr><tr><td>B) Tsumitate NISA</td><td>0.4 million yen per year</td><td>No change</td><td>Maximum 20 years</td><td>No change</td><td>Until 2037</td><td>Until 2042</td></tr></table></div> <div><div>iDeCo</div><table><tr><th rowspan="2"></th><th colspan="2">Age to start receiving benefits</th><th colspan="2">Eligible age for enrollment</th><th colspan="2">Simultaneous enrollment with corporate-type DC</th></tr><tr><th>Before amendment</th><th>After amendment</th><th>Before amendment</th><th>After amendment</th><th>Before amendment</th><th>After amendment</th></tr><tr><td>iDeCo</td><td>60 - under 70 years old</td><td>60 - under 75 years old</td><td>20 to under 60 years old</td><td>20 to under 65 years old</td><td>In accordance with terms and conditions.</td><td>Permitted even if not provided for in the terms and conditions※</td></tr></table></div> <div>※ Caps are set for company-type DC and iDeCo contributions.</div>		Tax-exempt investment limit		Tax-exempt period		Account opening period		Before amendment	After amendment	Before amendment	After amendment	Before amendment	After amendment	A) NISA	1.2 million yen per year	1.22 million yen per year	Maximum 5 years	Can be transferred to B) upon termination of the left period	Until 2023	Until 2028	B) Tsumitate NISA	0.4 million yen per year	No change	Maximum 20 years	No change	Until 2037	Until 2042		Age to start receiving benefits		Eligible age for enrollment		Simultaneous enrollment with corporate-type DC		Before amendment	After amendment	Before amendment	After amendment	Before amendment	After amendment	iDeCo	60 - under 70 years old	60 - under 75 years old	20 to under 60 years old	20 to under 65 years old	In accordance with terms and conditions.	Permitted even if not provided for in the terms and conditions※
		Tax-exempt investment limit		Tax-exempt period		Account opening period																																											
		Before amendment	After amendment	Before amendment	After amendment	Before amendment	After amendment																																										
	A) NISA	1.2 million yen per year	1.22 million yen per year	Maximum 5 years	Can be transferred to B) upon termination of the left period	Until 2023	Until 2028																																										
B) Tsumitate NISA	0.4 million yen per year	No change	Maximum 20 years	No change	Until 2037	Until 2042																																											
	Age to start receiving benefits		Eligible age for enrollment		Simultaneous enrollment with corporate-type DC																																												
	Before amendment	After amendment	Before amendment	After amendment	Before amendment	After amendment																																											
iDeCo	60 - under 70 years old	60 - under 75 years old	20 to under 60 years old	20 to under 65 years old	In accordance with terms and conditions.	Permitted even if not provided for in the terms and conditions※																																											
Market impact	<ul style="list-style-type: none"><li>● Japanese household financial assets (over 1,000 trillion yen in deposits or cash holdings) are expected to shift from savings to investment.</li><li>● Increased opportunities for financial instruments business operators, etc. to provide advice and conduct solicitation regarding investments.</li></ul>																																																
Business opportunities for asset managers	<ul style="list-style-type: none"><li>● Tax incentives for asset management will be revised, which is expected to further increase the number of individual investors and the amount invested in Japan.</li></ul>																																																

Sources: \*<sup>1</sup> Cabinet Office, [Basic Policy on Economic and Fiscal Management and Reform \(Basic Policy 2022\)](#), Jun. 7, 2022

\*<sup>2</sup> Monex, Inc. [FP explains the new NISA scheme to start in 2024!](#), viewed on Jul. 4, 2022

\*<sup>3</sup> Mizuho Bank, [How will iDeCo change with the amendments to the scheme in 2022?](#), Mar. 22, 2022

# The Latest Trends

## Annex 5. Launch of the Financial Services Intermediary Business

- ▶ In June 2020, amendments to the law related to the launch of the Financial Services Intermediary Business were enacted, which allows all banking, securities, and insurance services to be handled under a single license.
- ▶ This enables access to customers of banks and insurance intermediaries, along with financial instruments intermediary service providers, expanding sales opportunities for asset management companies.

### Outline

- Features of the Financial Services Intermediary Business
  - ✓ Optimize one-stop services by enabling intermediaries to provide services in all areas of banking, securities, and insurance with a single registration
  - ✓ No need to be affiliated with a specific financial institution as in the past
- Products that can be handled
  - ✓ Limited to products that do not require advanced explanations, assuming that the service is provided online

	Banking	Securities	Insurance
Available	Savings account, Mortgage loans	Government bonds, Listed stocks, Investment trusts	Personal accident, Travel, Golf
Not available	Structured deposit	Unlisted stocks, Derivatives instruments	Variable, Foreign currency denominated

### Market impacts

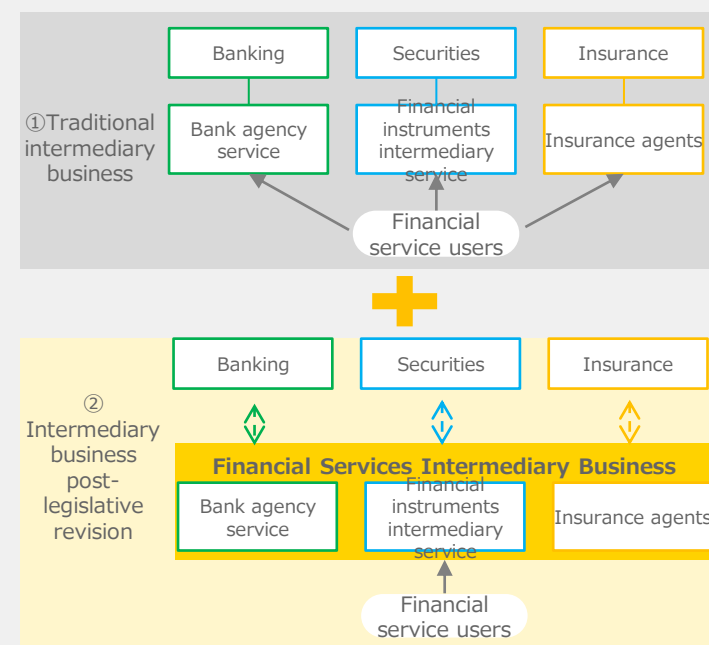
- Product providers
  - ✓ Traditionally, only products in each service area were sold to sales agents of banks, securities and insurance companies respectively, but cross-selling is now possible, expanding potential sales channels
- Financial Services Intermediary Business
  - ✓ Expands the range of products that can be handled by bank agents, financial instruments intermediary service providers
  - ✓ Businesses other than financial instruments intermediary service providers can also offer asset management products
  - ✓ Companies in different industries, such as FinTech and other IT companies, as well as e-commerce companies, can now handle financial products and sell them through their own products and platforms

### Business opportunities for asset managers

- The launch of the Financial Services Intermediary Business has enabled companies other than traditional brokerage firms to sell products to potential customers, expanding their sales opportunities to a wide range of banking, securities, and insurance customers.

### Conventional Intermediary Business and Financial Services Intermediary Business

Approach from users — Affiliation <=> Partnership

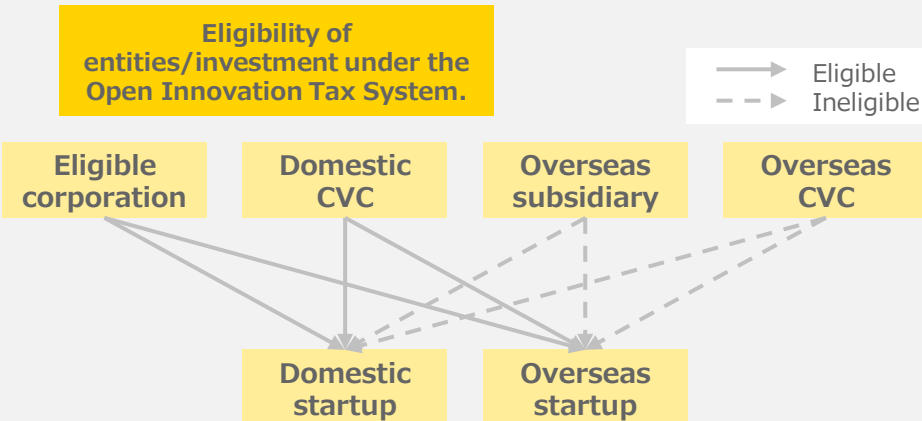


Sources:

# The Latest Trends

## Annex 6. Open Innovation Tax System

- ▶ The Open Innovation Tax System was established as part of the FY2020 Tax Reforms, with applicable period of this tax system extended in 2022.
- ▶ Overseas startups continue to have easier access to investment from domestic corporations subject to this tax system\* and their corporate venture capital (CVC) arms.

Outline	<ul style="list-style-type: none"> <li>▶ Tax reforms enacted in FY2022 extended the period (until March 31, 2024) during which domestic corporations or their CVCs can deduct 25% of the cost from their income (with an upper limit) when they acquire a certain amount of newly issued shares of a startup for the purpose promoting open innovation.</li> <li>▶ The main requirements for investment are as follows: <ul style="list-style-type: none"> <li>• Investments should be made in unlisted startups that have been in business for less than 10 years.</li> <li>• Investments should be made with the expectation of holding shares for at least five years, and not for net investment purposes.</li> <li>• The amount of each investment must be 100 million yen or more (subject to certain conditions).</li> <li>• Investments should be made as part of open innovation initiatives.</li> </ul> </li> </ul>	<p><b>Investment in overseas startups under this tax system*<sup>1</sup></b></p>  <p><b>Eligibility of entities/investment under the Open Innovation Tax System.</b></p> <p>—▶ Eligible - -▶ Ineligible</p> <p>Eligible corporation, Domestic CVC, Overseas subsidiary, Overseas CVC, Domestic startup, Overseas startup</p> <ul style="list-style-type: none"> <li>▶ This tax system also applies to investments in overseas startups, provided that investors are eligible domestic corporations or their domestic CVCs (overseas subsidiaries or overseas CVCs of eligible corporations are not subject to this system).</li> <li>▶ The amount of investment must be 100 million yen or more per project. However, if the eligible corporation is a SME, the investment must be 10 million yen or more. Further, if the investment is made in an overseas startup, the amount must be 500 million yen or more.</li> </ul>
Business opportunities for assets	<ul style="list-style-type: none"> <li>• CVCs making investments in startups can receive preferential tax treatment.</li> </ul>	

※ Companies eligible for this tax system: those acquiring shares in startups for the purpose of promoting open innovation

Source: \*<sup>1</sup> Ministry of Economy, Trade and Industry, *Open Innovation Promotion Tax System*, Apr. 2022



Building a better  
working world

## Contact

### Team Members:

Mariko Ishihara

Kimiko Ito

Lance Truong

### Contact:

Email: [investtokyo@jp.ey.com](mailto:investtokyo@jp.ey.com)

Phone: +81 3 3503 3500 (9:00 ~ 18:00 Japan  
Standard Time)