

JAPAN REINVENTING ITSELF AS A GLOBAL FINANCIAL HUB: CHALLENGES AND POLICY IMPLICATIONS

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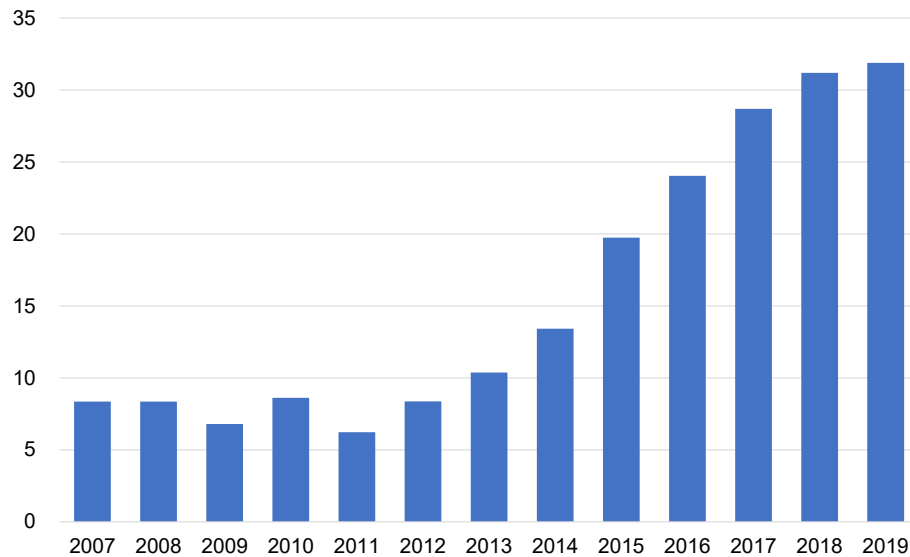


JAPAN IS BECOMING MORE INTERNATIONAL

Opening up of Japan to foreigners over the past 10 years:

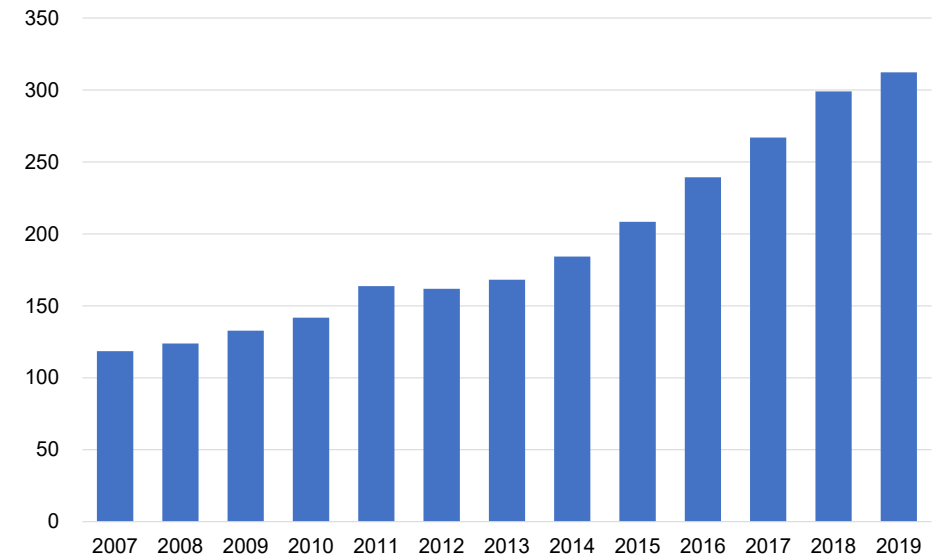
- 2012 – Points-based immigration scheme for Highly Skilled Foreign Professionals
- 2017 – Highly Skilled Visa can convert into Permanent Residency in 1 year
- The number of foreigners living in Japan increased from 2.0 million in 2012 to 2.9 million in 2019

Foreign visitors to Japan (millions)



Source: Japan National Tourism Organisation

Foreign students in Japan (thousands)

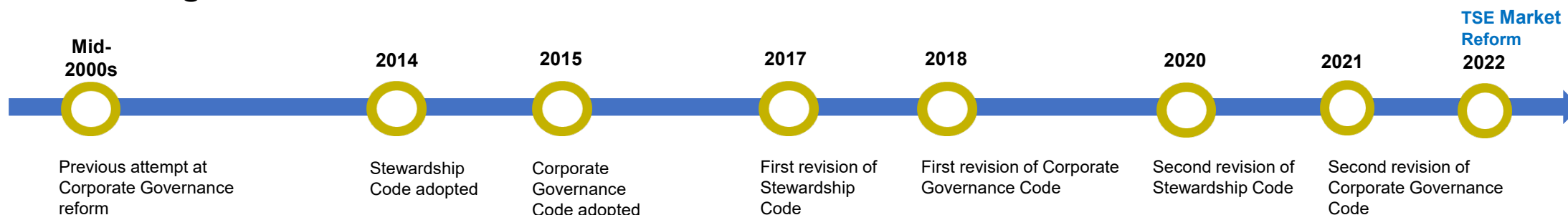


Source: Japan Students Service Association

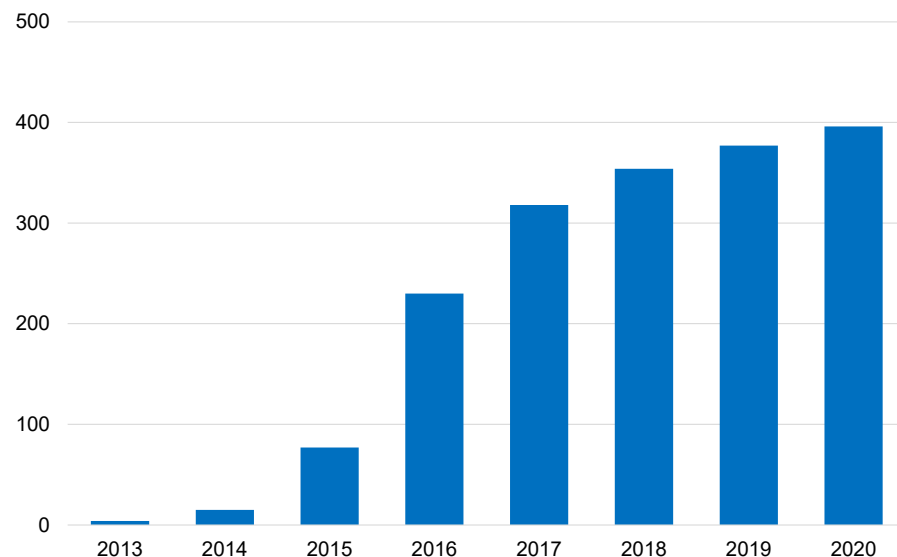


IMPACT OF CORPORATE GOVERNANCE REFORM

Timeline of governance reforms

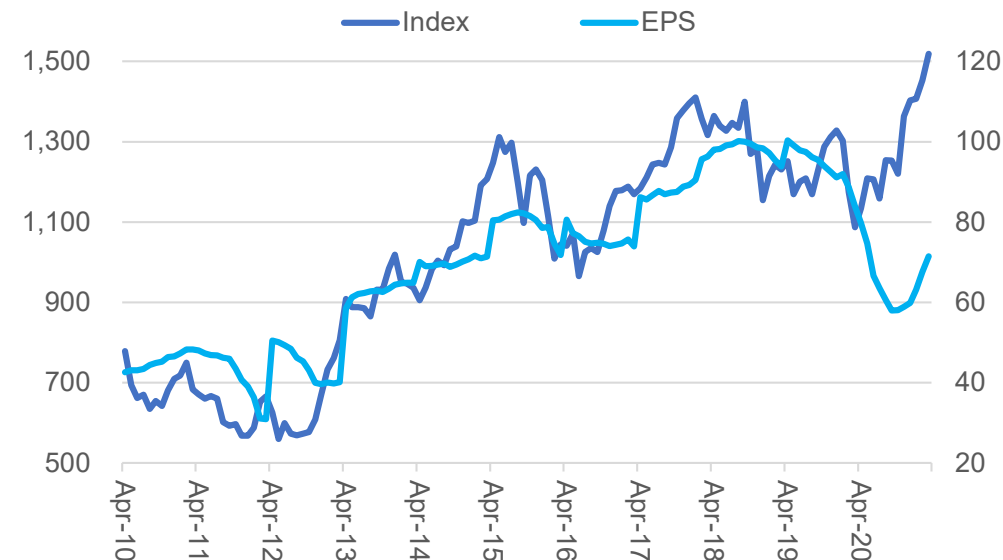


TOPIX 500 companies with stock incentive plans



Source: UBP Investments

TOPIX 500 Index



Source: Bloomberg

OPENING REMARKS

Hiroshi Okada

Director,
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PRESENTATION

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Deputy Director,
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International Financial Hub Initiatives

2021. 4

Japan as an International Financial Hub

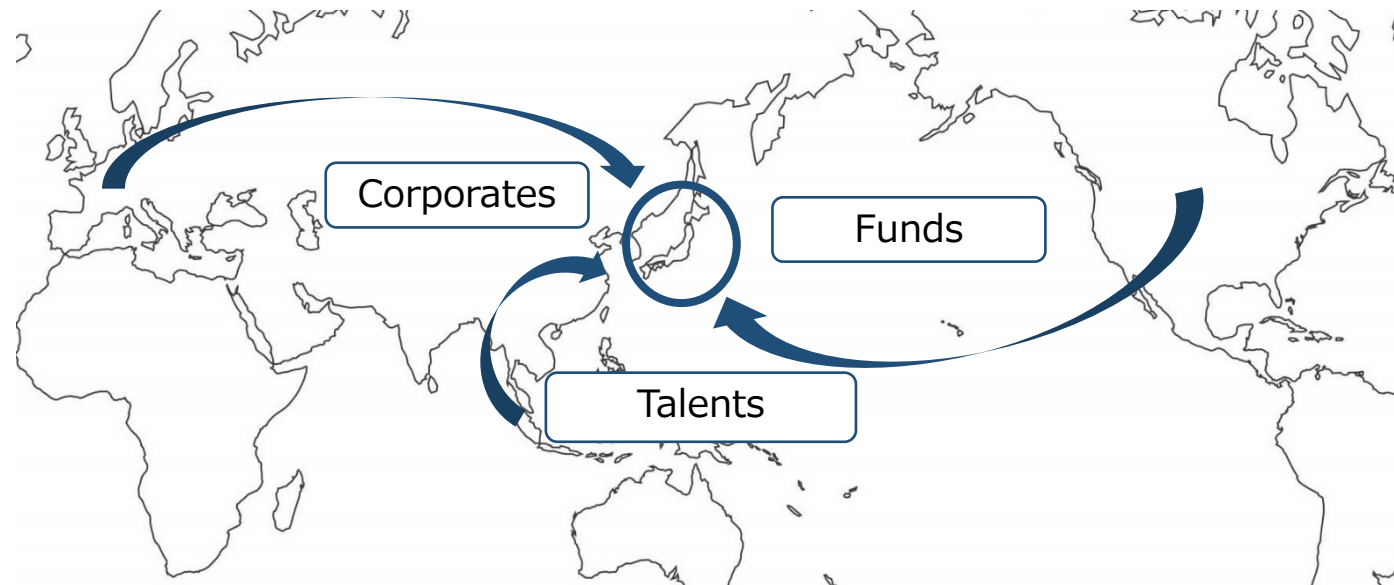
Japan's strengths / potential

- Political stability, good public security, favorable living environment
- Sizable domestic economy, over 18 trillion USD household assets

Japanese Government's Initiatives

- Provide convenience/accessibility through easing regulatory measures
- Enhance the tax system and provide life support by collaborating with other ministries

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



**...to make Japan an attractive place for foreign professionals to do business
in addition to a tourism destination**

Speech by Prime Minister Suga

“We will welcome finance professionals from overseas as we strive to be a financial center for Asia and the world. To this end, we will immediately review relevant aspects of our tax system, provide broader administrative services in English, and relax the requirements for residential status.”

Policy Speech by the Prime Minister to the 203rd Session of the Diet

October 28, 2020

Summary of Japanese government's initiatives

Policy package through cross-ministerial collaboration

Tax policy	✓ Revision/clarification of corporate, inheritance, and income tax
Regulatory policy	✓ One-stop English service for application and registration for newly entering overseas asset managers ✓ Introduction of simplified market entry procedures for overseas asset managers
Residence status	✓ Special immigration measure for newly entering asset managers as a temporary visitor to commence business without returning to their home country ✓ Relax employment requirements for domestic helpers and increase convenience for working spouses for Highly-Skilled Professionals
Company setup and livelihood support	✓ One stop company setup support for free ✓ Livelihood support such as international school hunting, medical matters, and housing
Information sharing	✓ Collectively share related policy measures information through a dedicated website and contact points of diplomatic missions

(1) Tax policy

Revision/clarification

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

(2) Regulatory policy

One-stop and all-in-English regulatory services

Current Status

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

Solution

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

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

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

(2) Regulatory policy

Simplified market entry procedure

Current status

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

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

Solution

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

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

※ The bill was submitted to the 2021 Diet session

(3) Residence status

Relax residence status requirements

Working visa

- Introduce an exceptional measure enabling foreigners entering Japan as a “temporary visitor (short-stay)” for the purpose of preparing for company setup to obtain residential status **without returning to their home country** before commencing business under certain conditions

Highly-Skilled Professionals

- **Add bonus point category for those engaged in asset management business** to be subject to preferential treatment for Highly-Skilled Professionals
- Finance professionals can obtain a Highly-Skilled Professionals visa within the **prioritized administrative review period (around 10 days)**

Domestic helpers/nannies

- With regard to Highly-Skilled Professionals, under certain conditions,
 - allow them to hire domestic helpers **even if they do not meet the conditions such as having a child under the age of 13**
 - increase the maximum number of domestic helpers they can hire from one to **two**

Spouse

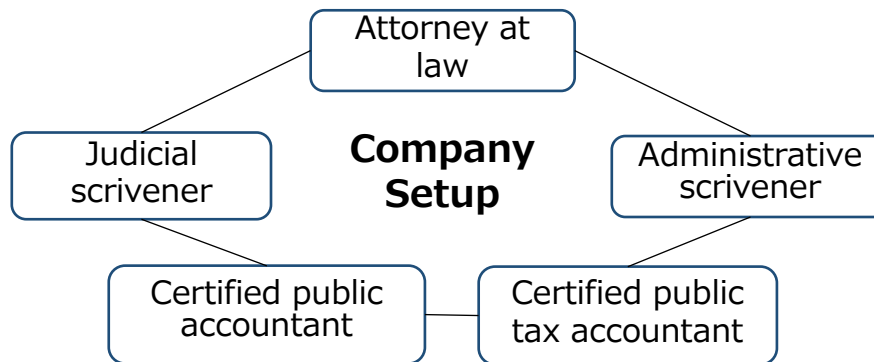
- Spouses of highly-skilled professionals can **work full-time without working visa** under certain conditions

Note: Bullets starting with ○ are preferential treatments for asset managers
“Certain conditions” are under discussion

(4) Company setup and livelihood support

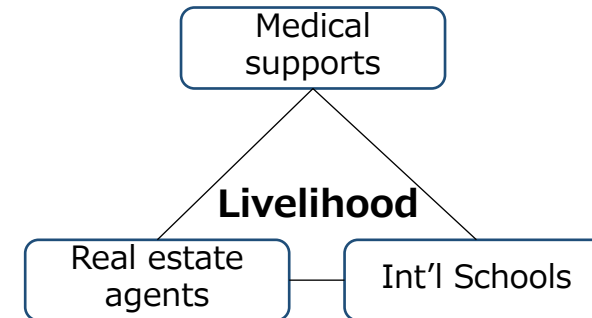
Company setup support

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



Livelihood support

- Medical supports
- Housing
- International Schools



Support by private companies

Implement a trial business project offering a free one-stop seamless support service for foreigners and overseas asset management businesses that are considering setting up companies in Japan

Support by the Government

Enhance “Financial Market Entry Office” (slide 5) to cover total relocation support including settling in and establishing a livelihood (in corporation with local governments and Foreign Residents Support Center)

(5) Information sharing

Enhancement of information sharing

Launch a dedicated page under JFSA's website to collectively share information on the following policy measures and total relocation support

- (1) Tax policy initiatives
- (2) Regulatory policy initiatives
- (3) Residence status
- (4) Company setup and livelihood support

Read the QR code :



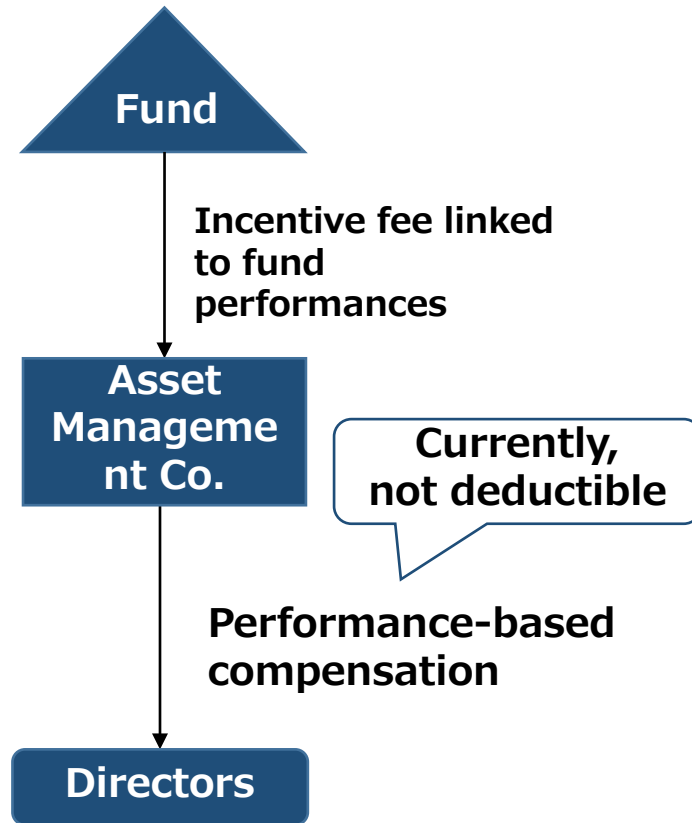
Contact information

Financial Market Entry Office
marketentry@fsa.go.jp
<https://www.fsa.go.jp/en/policy/marketentry/index.html>



Appendix

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



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

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

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

*3 The conditions includes:

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

Inheritance tax

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

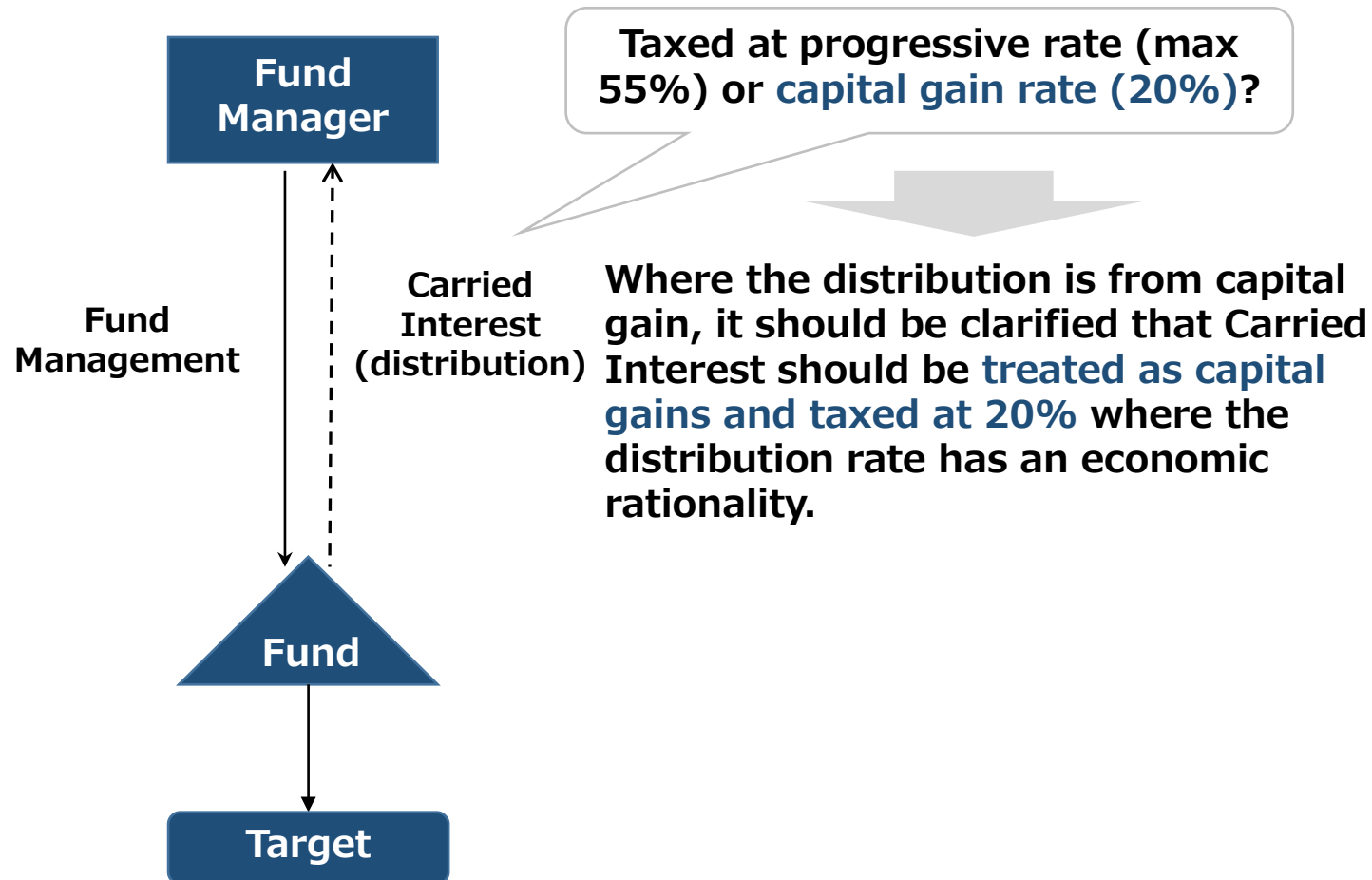
Donor/Decedent \ Donee/Heir		Address in Japan		No address in Japan		
			Temporary Foreigners* ¹	Japanese National		Non-Japanese National
				Had address in Japan within 10 years before death /gift	No address in Japan within 10 years before death /gift	
Address in Japan						
	(Current) Temporary Foreigners*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

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

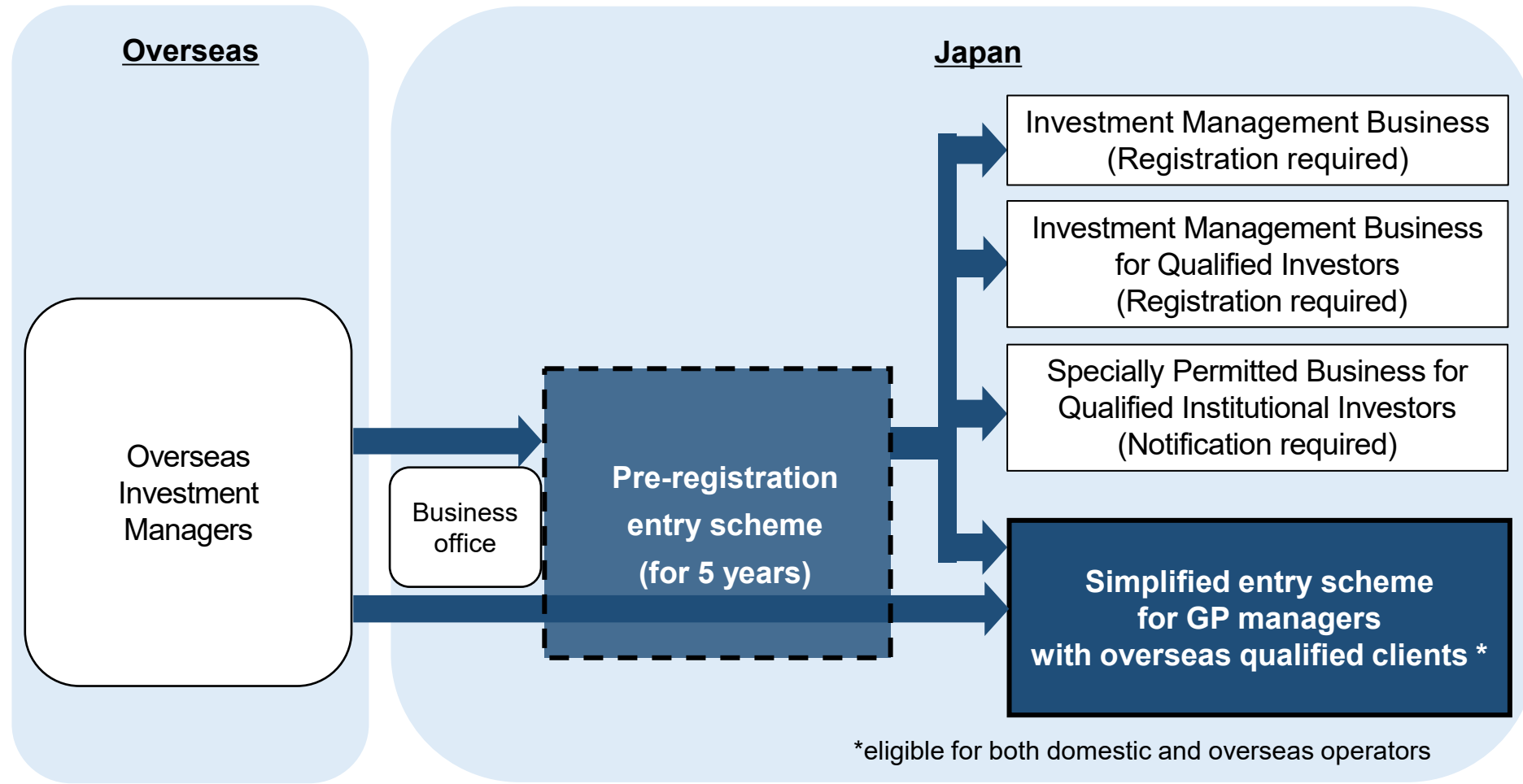
*1 Foreign nationals who hold a visa issued under Table 1 of the Immigration Control and Refugee Recognition Act, such as work visa, and have had an address in Japan for not more than 10 years out of the past 15 years looking back from the date of the death/gift

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

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



Legislative Amendments for International Financial Hub



Easier enrollment to overseas insurance

Current Status

- Resident employees of foreign companies may need permission from JFSA to enroll overseas insurance in Japan
- The application process requires a Japanese translation of the terms and conditions of the insurance contract

Solution

Application procedure will be simplified for as follows.

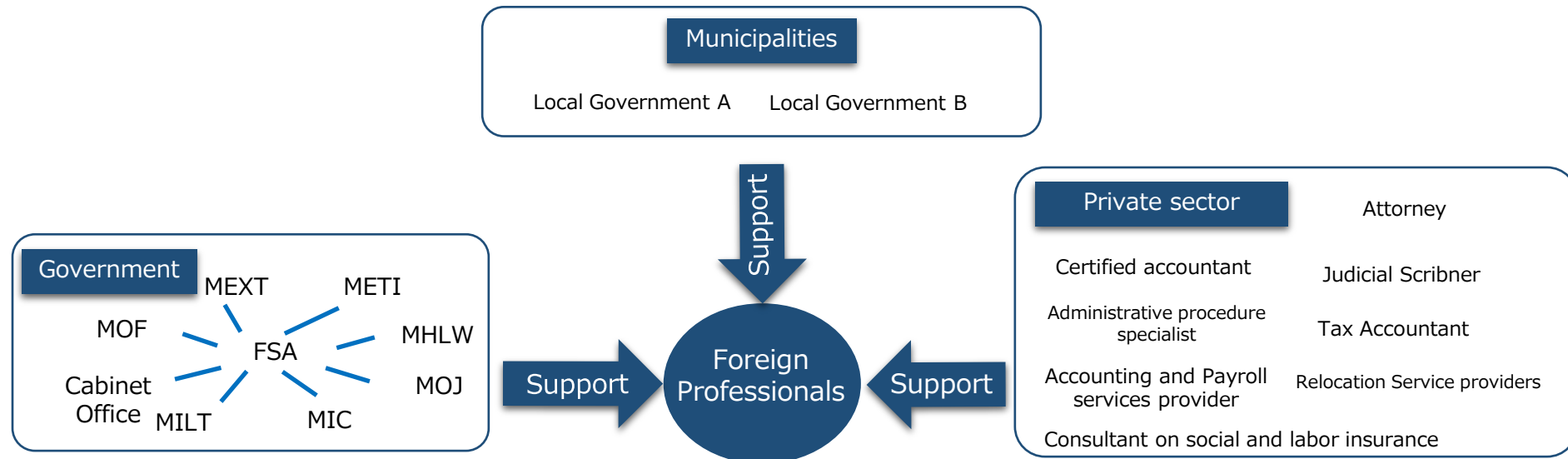
- (1) In case that the application only covers employees of the policyholder, names/addresses of the insured persons, etc. will not be required to be stated
- (2) Submission of a Japanese translation of the terms and conditions of the insurance contract will not be required

(Note) Public consultation started on February 15, 2021

Support for Company setup and Livelihood

“Support Network For Financial professionals”

- **Prepare a seamless support environment** for foreigners planning financial business setup in Japan such as asset management, which facilitates their business incorporation, start of business activities, and settling-in
 - ✓ Establish **Financial Market Entry Office** which administers affairs of foreign asset managers in English
 - ✓ Provide one-stop support including living arrangements in Japan through coordination with other Agencies
 - ✓ Further coordination with private sector services



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PANEL DISCUSSION



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CLOSING REMARKS

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CFA SOCIETY JAPAN SURVEY

- Please respond to our survey on Japan as a global financial hub
- Takes 10', it is anonymous and we can share with you our findings
- Your opinion is highly valued!
- Access the survey:
jp.surveymonkey.com/r/C6YFL8S



THANK YOU

