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Tokyo Financial City Vision

Vitalizing Japan's Financial and Capital Markets as a Pillar to the New Growth Strategy

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1. Concept

- Finance plays a major role in the effort to ensure sustainable growth of the Japanese economy. As the country moves out of its deflationary spiral and the eyes of the world shift toward Japan in anticipation of the Tokyo 2020 Olympic and Paralympic Games, now is the time to seize the opportunity to strengthen Tokyo's functions as an international financial center.
- The purpose of Tokyo Financial City Vision is to propel Tokyo, the heart of Japan's financial services, to the status of a top international financial center. It envisions the enhancement of financial assets held by households, the strengthening of ties with Asia, one of the world's main growth engines, as well as the leveraging of the National Strategic Special Zone framework. In addition to implementing necessary measures by financial institutions and the national government, the Vision involves the utilization of the National Strategic Special Zones by the Tokyo Metropolitan Government.
- Three organizations, Japan Center for Economic Research, Daiwa Institute of Research Ltd. and Mizuho Research Institute Ltd., have jointly examined how to revitalize capital markets from a think-tank perspective. To create a unique international financial center that leverages the strengths of Japan, such as its vast industrial base that supports the world's third largest economy, it is crucial to promote Tokyo Financial City Vision in line with related authorities and private sector players.

2. Seven Proposals

(1) Create a Framework for Realizing Tokyo Financial City Vision

① **Establish bodies such as a liaison council and other associated organizations through the joint efforts of the national government, the Tokyo Metropolitan Government and the private sector.**

- To push ahead with the Tokyo Financial City Vision, the mutual

cooperation of the national government, the Tokyo Metropolitan Government and the private sector is essential. To achieve this, for example, the establishment of a liaison council and other bodies as a basis to facilitate intercommunication will be needed to encourage the participation of players over a broad spectrum.

- The role of these organizations will be to support the promotional activities of the Mayor of Tokyo Financial City (described below) and bring out and analyze all the associated issues.

② Assign the Mayor of Tokyo Financial City to actively conduct promotional activities overseas and set up a forum for sharing and generating information.

- To improve the standing of Tokyo as an international financial center, active promotional activities to attract overseas financial service providers is important. We propose the appointment of the Mayor of Tokyo Financial City, likened to the City of London's Lord Mayor.
- We will foster individuals with abundant international experience who are deeply versed in finance to become Mayor, to actively undertake information dissemination activities overseas. The Mayor will provide feedback to the national government and the Tokyo Metropolitan Government on information obtained from financial centers overseas around the world in the course of his/her promotional activities.
- To maintain the vigor and appeal of Tokyo Financial City, we will establish, in the style of London's Chatham House (formally known as the Royal Institute of International Affairs), a Japanese equivalent of that organization. It will serve as a forum for exchanging information both internally and externally, allowing people and knowledge to come together.

(2) Implement tax incentives unique to the Tokyo Metropolitan area utilizing National Strategic Special Zones

① Build a cost structure that is competitive vis-à-vis other international financial centers through the conditional reduction of regional corporate income taxes.

- In addition to the potential corporate income tax reform currently being discussed by the government, we will utilize the National Strategic Special Zones, based on related proposals put forth by the Tokyo Metropolitan

Government. We will support the easier application of preferential tax measures for the Asia Headquarters Zone already in effect. Furthermore, we will implement conditional reductions on taxes such as the business tax levied on financial institutions with newly established offices in Japan (including re-entry).

- Tax incentives for venture asset management firms should be offered if they satisfy certain requirements.

(3) Accelerate the move from savings to investment through the enhancement of household financial assets

① Revise asset-building support measures such as NISA; Japan's Individual Savings Account, and defined contribution plans for the benefit of households.

- As Japan's birth rate continues to decline and the population ages, the need to support household asset-building efforts will increase. Along with initiatives to support these individuals through financial planning according to age and asset management support, we will promote the development and provision of financial products suitable for long-term investment.

- Asset-building support measures such as the defined contribution system, the property formation and accumulation system, NISA and others have all been individually designed and managed, hence they are in many aspects, insufficiently utilized. We need a comprehensive, cross-sectional revision of the system for the benefit of users by, for example, making NISA permanent and more convenient, improving the defined contribution system and creating a junior NISA.

② Respond to infrastructure funding demands and address the needs of the super-aged society

- Financial assets of the private sector should be matched with the capital requirements for infrastructure maintenance and renewal. PFI (Private Finance Initiative) methods that leverage private sector assets and management capabilities are also essential; particularly concession methods need to be utilized. Although special taxation measures are in place to build a listed infrastructure fund market, there are still many

restrictions which require improvement.

- The development and dissemination of products that can secure stable returns while being free of inflation risk is desirable for financial products appropriate for the elderly. For example, we should consider the issuance of inflation-indexed bonds for individuals by both national and prefectural governments, and the formation of private sector infrastructure funds, amongst others.
- It is also important to further promote the diffusion of reverse mortgages for post-retirement funds by applying financial technologies to residential stock held by the elderly. Initiatives aimed at expanding the healthcare REIT market that invests in medical treatment, nursing care and other such facilities, should be advanced, since healthcare demand is expected to grow.

(4) Develop a market infrastructure for Tokyo to act as a financial hub in Asia

① Examine ways to transform Tokyo into a multicurrency market

- The need for financial products denominated in the U.S. dollar, the euro, the Chinese yuan or other foreign currencies is on the rise. The Tokyo market needs a mechanism for securities clearing to facilitate investment in foreign currencies. As there are various options with regard to creating a clearing infrastructure and what schemes are employed, players in both the public and private sectors should be involved in the development process.
- For smooth capital clearing of Chinese yuan-denominated assets, the establishment of a yuan clearing bank will be necessary. Moreover, to meet demands for the operating assets of Japanese companies that have / will have offices in Asian countries, we should start exploring the needs and issues concerning non-yuan Asian currency transactions.
- In the area of retail payments, we need to examine ways to build a clearing infrastructure that will be easy for tourists to use, considering the expected influx of foreigners by 2020.

② Create an environment for Tokyo to serve as an Asian capital funding and investment center

- As the yen continues to internationalize, so too must Japanese bonds. We should promote to foreign investors the ownership of Japanese Government Bonds (JGBs) as well as their utilization to secure transactions. We expect quick and definite initiatives geared toward improving the settlement infrastructure, including shortening the JGB clearing period and extending the hours of operation of BOJ-NET. Moreover, we look forward to the expansion and improvement of the local currency-denominated capital supply mechanism under cross-border collateral arrangements among BOJ and Asian central banks that pledge JGBs.
- To realize development of the Asian bond market, ties between the Tokyo and Asian markets need to be strengthened. It is necessary that promoting initiatives are aimed at building infrastructure to invigorate cross-border bond issuances and facilitating capital procurement by Asian issuers.
- Malaysia has maintained its standing as the global leader in the area of Islamic (Sharia) finance through personnel development organizations, ratings organizations, consulting firms, and other related bodies. We need to promote research on the feasibility of Sharia finance in the Tokyo market.

(5) Establish Tokyo as a global asset management city

① **Diversify the ways of managing public pension funds and foreign reserves**

- With the thorough revision of the governance framework securing specialized human resources, we will need to promote the diversification of investments and boost our active asset management ratio in public pension fund management. This will raise the interest of financial players across the globe and lead to the expansion and development of various markets.
- With regard to foreign-currency reserves, we need to consider the effective utilization of foreign currency-denominated investment and lending in order to invigorate foreign currency-denominated transactions in the Tokyo market. Although the system allows for external entrustment of foreign currency-denominated assets management held in the Foreign

Exchange Fund Special Account, further active utilization of this practice would be desirable.

② Develop a city where both domestic and foreign financial institutions, including asset management businesses, actively engage in operations.

- Asset management firms that manage mid- to long-term capital and assets are in a significant position to revitalize private financial assets and secure the livelihoods of senior citizens. We should leverage deregulation measures in National Strategic Special Zones to promote the creation of an environment which will attract domestic and foreign asset management service providers. Also necessary is an infrastructure for all procedures and applications to be carried out easily in English.
- Regarding domestic and foreign financial institutions that satisfy certain requirements, we should examine ways to relax labor regulations and visa requirements, especially for individuals in high-ranking positions. This would include allowing highly specialized foreign financiers to bring their own nannies along with them.
- We should position Tokyo Financial City as an information gathering hub that links investors (domestic angel investors, foreign funds) with venture firms, small to midsize companies and others that, despite possessing sophisticated technologies, have problems continuing their operations.

(6) Promote Tokyo as a center for financial training and international personnel exchange

① Expand financial training at educational institutions (from elementary schools to universities) and in the workplace.

- In the financial industry, initiatives such as instructor dispatches to schools are being promoted. However, we need to advance efforts to bolster alliances between the national Government and Tokyo Metropolitan Government on one side and various industries on the other, all the while raising education targets.
- For adults, we need to encourage employee investment education in the workplace through the further dissemination of defined contribution plans.

We should lay all the issues on the table at liaison meetings set up to bring together national government ministries and agencies overseeing various systems, the Tokyo Metropolitan Government, financial institutions, and corporate representatives.

② Advance international personnel exchanges through a financial training system

- It is now more important than ever to support international personnel exchanges whereby young finance personnel can be accepted from overseas for training by utilizing our collaboration platform for the realization of Tokyo Financial City.

(7) Plan urban development projects in view of the Tokyo 2020 Olympic and Paralympic Games

① Provide further medical and government services in English and ease regulations regarding international schools

- We need to create a lifestyle environment to make Tokyo a global urban center. For this, we will need to display multilingual signs at medical treatment facilities, government service areas, train stations and on roads. Increasing government subsidies for international schools is also necessary. In addition, we should consider accepting foreign public servants for practical training through human resource exchanges among sister cities.

② Diversify funding instruments through the issuance of Olympic bonds and inflation-indexed Tokyo Metropolitan bonds

- From the perspective of facilitating funding, we should consider diversifying our funding means through the issuance of Olympic bonds and inflation-indexed Tokyo Metropolitan bonds. This may have a positive effect on other municipalities, as well as stimulating the market.
- We should use the Tokyo 2020 Olympic and Paralympic Games, both global events, as an opportunity for the Tokyo Metropolitan Government to increase the utilization of PFI and concessions.

Conclusion

The Tokyo Financial City Vision proposal calls for the enhancement of household financial assets in a super-aged society, the strengthening of ties with Asian countries and the leveraging of our National Strategic Special Zone framework. Particular initiatives would involve assigning the Mayor of Tokyo Financial City to conduct promotion activities overseas, or proposing a unique tax incentive for Tokyo.

Now that the world has turned its eyes toward Tokyo as the host of the 2020 Olympic and Paralympic Games, we have a great opportunity to exponentially increase the presence of the Tokyo market. If the public and private sectors are able to seize this opportunity, sustainable growth may be on the horizon.