Doubling Asset-based Income Plan

1. Basic concept
   ○ The Kishida administration is promoting efforts to realize a "new form of capitalism." Looking at the "new form of capitalism" in terms of the flow of funds, we will use the 325 trillion yen in cash and deposits accumulated in the corporate sector to invest in important fields such as human resources, startups, Green Transformation (GX) and Digital Transformation (DX), thereby boosting growth. It is also important to use the cash and deposits that lie dormant in the accounts of Japan's households for investment, and to increase household income from financial assets in addition to working income.

   ○ More than half of Japan's 2,000 trillion yen in household financial assets of are held in cash and low-yielding deposits. Even after accounting for pensions, insurance and other indirect holdings, the total amount invested in stocks, investment trusts and bonds is 244 trillion yen, with only about 20 million investors. On the other hand, in the United States and the United Kingdom, an environment has been created in which even the middle class can easily invest in listed stocks and investment trusts. Household financial assets have increased 3.4 times in the United States and 2.3 times in the United Kingdom over the last 20 years, but only 1.4 times in Japan due to differences in the investment environment.

   ○ Cash and deposits account for a larger proportion of household financial assets in Japan than in Western countries, which is due in part to the post-war development of indirect financing, in which companies borrow from financial institutions such as banks. Realizing a shift from savings to investment and promoting a shift to direct finance are also important in developing a startup ecosystem that raises funds from venture capital, while also ensuring a steady supply of risk money that supports corporate growth.

   ○ If we can create an environment in which the middle class can easily invest in high-return assets, we will be able to increase household income from financial assets. Furthermore, if household funds become a source of funding for corporate growth investment, it would stimulate corporate growth and increase corporate value. If corporate value rises, household income from financial assets will increase further, resulting in a "virtuous cycle of growth and asset-based income."

   ○ There was once a perception that only the wealthy people invested in stocks and investment trusts. However, since the introduction of NISA and installment-type NISA (also known as Tsumitate NISA), 17 million accounts have been opened and 28 trillion yen in new investment has been made, and use of these saving accounts among young
people in their 20s and 30s is rapidly increasing. Furthermore, digitalization has made it possible to easily manage assets using apps and access a wide range of financial products with low fees, allowing the development of a system that allows a diverse range of people, including those with little investment experience, to participate in asset formation, thereby greatly expanding the middle class’s asset-based income.

In addition, amidst the changing geopolitical situation in East Asia, Japan should strive to become an "international financial hub" by taking advantage of Japan's characteristics as a safe and secure country supported by steadfast democracy and the rule of law. In particular, along with the easing COVID-19 border control requirement, we will support the doubling of asset-based income through enhancing the attractiveness of Japan's financial markets by collectively promoting (1) revitalization of financial and capital markets that contribute to new growth; (2) globalization of financial administration and tax systems; and (3) development of a living and business environment that supports highly-skilled foreign workers and effective communication of information.

2. Goals

Among the goals of the Doubling Asset-based Income Plan, first, we aim to double the number of people with investment experience. Specifically, we aim to double the total number of NISA accounts (ordinary and installment-type accounts) from the current 17 million² to 34 million in five years.

Second, we aim to double investment. Specifically, we will double the amount of NISA account purchases from the current 28 trillion yen³ to 56 trillion yen in five years. Following that, we aim to double the investment amount (total balance of stocks, investment trusts, bonds, etc.) among households.

In order to realize stable asset formation primarily for the stratum centered on the middle class through achieving these goals, we will implement policy measures with a view to doubling asset-based income itself as a long-term goal.

3. Direction of the plan

According to a survey by the Financial Services Agency, the most common reason inexperienced people have for not investing is "I don't have spare funds" (56.7%). The second is: "I don't have knowledge about asset management" (40.4%), while the third is: “Because I feel uneasy about purchasing/holding investments” (26.3%).⁴

This survey shows the importance of simple, easy-to-understand and easy-to-use
systems and the significance of allowing small-scale investments (100 yen to 1,000 yen), and that the effectiveness of long-term diversified regular investment is not widely understood. In addition, in order to support households with financial asset formation so as to eliminate the lack of knowledge and dispel concerns, it is necessary to establish a neutral and trustworthy advisory system for consumers. Based on this, the following seven pillars will be promoted as part of an integrated effort toward doubling asset-based income.

(1) Major expansion of and making permanent NISA to shift household financial assets from savings to investment
(2) Reform of the iDeCo system, such as raising the eligibility age
(3) Creation of a system to encourage the provision of neutral and reliable advice to consumers
(4) Enhancing asset formation for employees
(5) Enhancing financial and economic education to spread the importance of stable asset formation
(6) Realization of an international financial center open to the world
(7) Ensuring customer-oriented business conduct

Also, tax measures will be considered during the process of future tax reforms.

4. Pillar 1: Major expansion of and making permanent NISA to shift household financial assets from savings to investment

NISA (Nippon Individual Savings Account, tax exemption program for small investment), launched in 2014, has seen a steady increase in the number of investment customers. Currently, there are 17.9 million NISA accounts, which means one in seven people in Japan have this account. The breakdown is 10.65 million ordinary NISA accounts, 6.39 million installment-type NISA accounts and 870,000 junior NISA accounts. The purchase amount is 26 trillion yen for the ordinary NISA system, 2.1 trillion yen for the installment-type NISA system and 0.6 trillion yen for the junior NISA system.5

Looking at NISA usage by income, 70% of individuals holding NISA accounts have an annual income of less than five million yen. Also, based on the amount of assets owned, the majority of NISA users have less than 10 million yen in household financial assets. Considering that the average amount of financial assets held by Japanese households are 10.62 million yen for single-person households and 15.63 million yen for households with two or more people, it is clear that the NISA system is being used mainly by the stratum centered on the middle class for asset formation.6
Looking at the opening of NISA accounts by generation, approximately 20% of all generations have opened accounts. Many installment-type NISA have been opened by people in their 30s and younger, while many ordinary NISA have been opened by people in their 40s and older. In particular, NISA account purchases by young people in their 20s and 30s are growing. In terms of the purchase amount by those in their 60s and older, a large fraction is for ordinary NISA. 

According to a survey of individual investors, in response to opening a NISA account many made such comments as "I learned that I can start investing with a small amount even if I do not have a large amount of money," "I have become conscious of long-term, diversified investment" and "I feel the need to form assets through investment, not just deposits and savings," which indicates that their image of investment changes positively.

On the other hand, according to a survey of people without NISA accounts, many of the reasons given for not opening a NISA account were "I am not willing to invest in the first place" and "The system is complicated."

NISA is becoming an established entry point for asset formation for the stratum centered on the middle class in particular. On the other hand, as mentioned above, the utilization rate of NISA is 20%, leaving much room to promote greater utilization. Therefore, the NISA system will be made permanent to increase the predictability of the system and simplified in order to further encourage asset formation among the stratum centered on the middle class. At the same time, we will make the tax-exempt holding period indefinite and raise the tax-exempt limit.

(1) Making the NISA system permanent

Currently, there are two types of NISA systems for adults: the ordinary NISA (1.2 million yen per person, tax-free for 5 years) and the installment-type NISA (400,000 yen/year per person, tax-free for 20 years).

In 2014, the ordinary NISA system was started as a temporary investment measure, and then in 2018, the installment-type NISA system was introduced. Initially, the ordinary NISA was set up with an investment period open to 2023, while the installment-type NISA was set up with an investment period open to 2037. Currently, the ordinary NISA is scheduled to be revamped in 2024 and changed to a new NISA with an investment period set until 2028. In addition, the investment period for installment-type NISA has been extended to 2042.
On the other hand, as long as the NISA system remains as a temporary measure, individual investors and others have pointed out that it is difficult to make long-term investments due to the awareness that the system will end. From the perspective of promoting stable asset formation primarily for the stratum centered on the middle class, it is necessary to make it possible to predict financial asset formation using NISA by implementing NISA as a stable system that lasts into the future. Taking this step will make it possible to encourage continuous investment.

Funds in the ordinary NISA can be invested in a wide range of investment vehicles, including stock investment trusts and domestic and overseas listed stocks. Investments in companies by individual investors become funds that support corporate growth, and the fruits of that growth are returned to individual investments to complete the cycle. Individuals directly providing funds to companies using the ordinary NISA will lead to the creation of an ecosystem that supports the growth of Japan from a financial perspective.

The installment-type NISA system limits investment to publicly-offered equity investment trusts and exchange traded funds (ETFs) suitable for long-term, installment-type and diversified investment that satisfies requirements published by the Financial Services Agency. For this reason, the system is highly convenient for supporting long-term, installment-type and diversified investment using a small amount of money by those with little investment experience.

Both the ordinary NISA and the installment-type NISA are extremely important. Therefore, by making the NISA system permanent, we will create an environment in which the stratum centered on the middle class, in particular, can continue to form assets steadily indefinitely.

(2) Indefinite NISA tax-exempt holding period

Under the ordinary NISA system, profits (dividends, capital gains, etc.) from financial products purchased through the ordinary NISA account are given a tax exemption for up to five years after the start of investment. Similarly, in regard to financial products purchased through the installment-type NISA, profits (dividends, capital gains, etc.) obtained from investing in certain investment trusts are given a tax exemption for up to 20 years after the start of investment.

In the short term, investment yields may fluctuate, but when averaged over the long term, investment has a significant effect on asset formation. On the other hand, the existence of a deadline for a tax exemption period means that if unrealized gains or losses occur in the short term, rather than waiting for the investment price to rise in the
long term, the gains and losses get recognized in the short term. Such a system makes it difficult to create incentives to continue holding an investment over the long term.

Furthermore, for those begin investing in an installment-type NISA in their 20s or 30s, the 20-year tax-exempt holding period will expire in their 40s or 50s, when they are still in the asset formation stage. This provides an incentive to withdraw financial assets before the time comes to use them.

For this reason, on the assumption that an appropriate lifetime upper limit for investment in NISA is established, then with respect to financial products purchased through NISA accounts, the tax exemption period for profits (dividends, capital gains, etc.) from financial products will become indefinite, and the incentives for long-term holding of financial products will be fundamentally strengthened.

(3) Increase investment limits for the ordinary NISA and the installment-type NISA

Currently, the maximum tax-free annual investment limit for a NISA is 1.2 million yen for the ordinary NISA and 400,000 yen for an installment-type NISA.

Looking at the investment caps in 2021, among those who purchased financial products through ordinary NISA accounts, 47% of the households in their 60s and older have an annual investment of more than 1 million yen.\textsuperscript{10} This suggests that a large number of people invest up to the upper limit of the annual investment cap.

In addition, those in their 60s and older who are receiving retirement benefits and completed mortgages repayments have a household average of more than nine million yen in deposits and savings,\textsuperscript{11} and have more than six million yen in the ordinary NISA, which is the lifetime investment limit for this investment account. To shift from savings to investment, the ordinary NISA investment limit must be increased to encourage investment by the elderly, who hold the majority of deposits and savings and realize a more attractive asset portfolio and assets allocation for the elderly.

Furthermore, as work styles become more diversified, an increasing number of people are choosing new work styles, such as freelancing, in which they live on non-permanent income instead of regular income. In the interest of supporting such workstyle diversity, it is desirable to develop an environment that allows concentrated investment when funds are available, making expansion of the ordinary NISA highly necessary.

On the other hand, on the assumption that the current annual limit of 400,000 yen may not be sufficient for the installment-type NISA, expanding the investment limit for the installment-type NISA in the same way as for the ordinary NISA would be highly
significant. In addition, since the current annual upper limit is 400,000 yen, the monthly investment limit is 33,333 yen, which is not an amount that can be evenly divided into 12 months. Therefore, it is also necessary to set the amount to make it possible to make regular monthly investments in equal amounts.

○ In this way, with regard to the maximum amount of tax-exempt investment in a NISA, increasing the maximum amount of investment for both the ordinary NISA and the installment-type NISA will improve the investment environment for households in favor of achieving the goal of doubling asset-based income.

(4) Treatment of the new NISA system to be implemented from 2024
○ From January 2024, the ordinary NISA is scheduled to shift to a new two-tier NISA system. In general, investment in the second tier of the ordinary NISA will only be allowed if investment is made in the first tier.

○ According to a survey of investors who answered that they would not use the new NISA system, 45% gave as the reason that "the two-tier system is complicated," while 31.5% said that they "don’t want to make an installment-type investment in tier one."¹²

○ From the perspective of making the system simple, easy to understand and user-friendly, we will review the implementation of the new NISA system and expand features of the system currently under consideration.

(5) Simplification of NISA procedures
○ In order to make it easier for users, including those with no investment experience, to use NISA, and to reduce the burden on financial institutions that provide services and service users, we will cooperate with related government ministries and agencies to utilize digital technology to simplify and rationalize procedures related to NISA. Furthermore, working with the Digital Agency, we will consider simplifying the opening of NISA and iDeCo accounts, including the use of Individual Number Card (My Number Card).

5. Pillar 2: Reform of the iDeCo system, such as raising the eligibility age

[Reform of the iDeCo system]
○ iDeCo (individual-type Defined Contribution pension plan) is a pension plan system that allows individuals to participate in the plan and determine by themselves how much to contribute and how to manage the contributions. Under the system, benefits can be received from the age of 60, and the amount of benefits is determined by the total amount of contributions and the profits derived from the investments of those contributions.
Tax preferential treatment in three parts applies to iDeCo: (1) contributions are fully deducted from income, (2) investment returns are reinvested tax free and (3) special tax breaks apply when receiving benefits. If you receive benefits as a lump-sum, you can receive a "retirement income deduction," and if you receive a pension annuity, you are eligible for a "public pension deduction."

The iDeCo system, which has the preferential tax treatment, is used by a wide range of age groups as a means of asset formation for a more comfortable retirement life. According to a survey that looked at iDeCo participants by asset holdings, many have holdings in the range of 1 million to 5 million yen, and 50% of iDeCo participants in their 20s started asset management after using iDeCo. In this way, iDeCo is used mainly by the stratum centered on the middle class and contributes to increase their household income.

Since its establishment in 2001, iDeCo has undergone a series of system reforms, such as expanding the scope of participation eligibility. In the January 2017 revision of the system, the scope of participation eligibility was expanded from only National Pension Category 1 insured persons and Category 2 insured persons who did not participate in a corporate pension plan to all types of National Pension Fund insured persons. From May 2022, the age at which people can participate in an iDeCo plan was raised from 60 to 65. In general, anyone under the age of 65 who is insured by the National Pension Fund can participate in the plan.

Amid this improvement of the system, the number of iDeCo participants has increased from 430,000 at the end of March 2017 to 2.39 million, but the number of participants is still small compared to that of public pension participants (67.25 million), leaving considerable room for further utilization of the iDeCo system. We will improve awareness of the system and eliminate the complexity of procedures, so that iDeCo can be used more easily and widely.

Furthermore, in 2020, a bill to revise the Act on Stabilization of Employment of Elderly Persons was enacted, making companies obligated as of April 2021 to take measures to secure employment for the elderly between the ages of 65 and 70, along with other measures provided to support employment up to the age of 70. In light of the fact that the obligation to make efforts to secure employment opportunities for the elderly was extended to the age of 70, and that workstyles and lifestyles are becoming more diverse, it is necessary to further improve the environment for household asset formation in advance of reaching old age. Therefore, we will reform the iDeCo system.
(1) Raise the iDeCo participation eligibility age
   ○ In order to participate in iDeCo, a person must be insured by the national pension fund. Regarding the age of eligibility for participating in iDeCo, differences exist: (1) Category 1 insured persons (self-employed, etc.) are under 60 years of age, (2) Category 2 insured persons (company employees, public servants, etc.) are under 65 years of age, (3) Category 3 insured persons (non-working spouses) are under 60 years of age, and (4) voluntarily insured persons (voluntary enrollment is possible for those who have yet to pay 480 months of National Pension contributions) are less than 65 years old.

   ○ Therefore, due to workstyle reforms and the fact that companies need to make efforts to ensure workers up to the age of 70 have job opportunities, we will raise the participation eligibility age for participating in iDeCo to 70. For this reason, along with a Financial Verification of Public Pension Plan in 2024, necessary legislative measures will be taken.

(2) Raise the iDeCo contribution limit and raise the upper limit on the receiving benefits age
   ○ The current iDeCo contribution limit is 68,000 yen per month for Category 1 insured persons (self-employed, etc.), 12,000 yen or 20,000 yen per month for Category 2 insured persons (company employees, public servants, etc.) who participate in a corporate pension plan, and 23,000 yen for those who do not participate in a corporate pension plan, and 23,000 yen per month for Category 3 insured persons (non-working spouses).

   ○ From December 2024, the contribution limit for those among company employees and public employees who participate in a corporate pension plan is scheduled to become a unified amount of 20,000 yen.

   ○ Currently, the upper age limit at which you can start receiving iDeCo benefits is 75 years old.

   ○ Regarding raising the iDeCo contribution limits and raising the upper limit of age eligibility to start receiving benefits, a conclusion will be reached in conjunction with the Financial Verification of Public Pension Plan in 2024.

(3) Simplification of iDeCo procedures
   ○ Along with NISA, we will also promote the simplification and speeding up of various procedures related to iDeCo, and will work to improve the efficiency of administrative procedures, including the use of My Number Card.
6. Pillar 3: Creating a system to encourage the provision of neutral and reliable advice to consumers

[Creating a system to encourage the provision of neutral and reliable advice to consumers]

○ According to a survey, 70% of consumers do not see the need to invest in securities. As for the reasons, 40% said "there is a possibility of losing money", and 30% each said "I don't have knowledge about finance and investment" and "it's like gambling," suggesting that there is a great deal of concern due to lack of knowledge.\(^{17}\)

○ Financial institutions also play a role in providing information, but in a survey asking the public image of securities companies, most respondents said they "feel hesitant" (42.1%), "not very reliable" (27.9%), and "engaged in aggressive soliciting" (15.2%).\(^{18}\)

○ On the other hand, when asked "would you want to purchase risky financial products if there was someone who could give you advice or help you with the procedures while understanding your point of view?", 50% of those in their 20s and 40% of those in their 30s, and an overall average of 25%, responded that they would like to make a purchase.\(^{19}\)

○ Thus, there is a need for a neutral advisor that can fill in the gaps in consumer knowledge and at the same time can be trusted by the consumer.

○ In the UK, a public institution, "MaPS (The Money and Pensions Service)," was established to provide financial and pension-related information and guidance. Positioned as a non-governmental public agency, MaPS provides debt advice, information on financial transactions and pensions and consumer protection services online and over the phone.

○ With reference to the existence MaPS in the UK and systems in other countries, in Japan as well there is a need for a system in which neutral parties can easily offer consulting advice on asset formation.

○ Therefore, it is important to promote the visibility of neutral advisors and work to ensure that such advisors widely provide high-quality, customer-oriented advice. Therefore, in 2024, a new public organization will be established to promote financial and economic education. As a project to improve the environment for the smooth provision of advice and to train advisors, the organization will provide certification of neutral advisors and support these advisors in ensuring they continue to provide quality service.

○ In particular, in order to ensure that advice given by such neutral advisors is widely
available to inexperienced investors, the easing of the registration requirements for investment advisory businesses (for example, limiting the scope of advice to installment-type NISA and iDeCo) will be considered along with the development of a necessary supervisory system.

7. Pillar 4: Enhancing asset formation for employees
   ○ In order to achieve a virtuous cycle of sustainable growth and distribution, to realize the new form of capitalism advocated by the Kishida administration, and to form a broader middle class, it is important to raise middle-class income levels.

   ○ Therefore, in order to expand employment income and as part of labor market reforms, we will simultaneously address three challenges: (1) facilitating labor mobility without unemployment between companies and industries, which gives employees the opportunity to change jobs to companies and industries with growth potential, (2) investing in people for reskilling (retraining to move to growth fields) and (3) against this background, structural wage increases.

   ○ At the same time, we will create a virtuous cycle in which income from financial assets owned by employees will be increased, and the benefits of sustained improvement in corporate value will extend to households. For this reason, it is necessary to strengthen asset formation for company-based employees.

   ○ As employers, companies have a high level of trust among employees, and efforts to support not only physical and mental health but also economic stability through company actions are spreading around the world to encourage human happiness. In Japan as well, employers need to promote efforts to improve the economic stability of their employees.

[Utilization of neutral certified advisors]
   ○ Efforts to support the asset formation of company-based employees have been noted for having such effects as improving employee satisfaction, elevating employee retention rates and reducing financial stress. On the other hand, although many individuals recognize the need to receive advice on asset formation, they lack the opportunity to do so.

   ○ Therefore, in order to stimulate efforts for economic stability of employees through companies, we will encourage companies to utilize neutral certified advisors in the workplace.

   ○ Specifically, we will encourage companies to subsidize employees when they use
neutral certified advisors. In addition, we will promote horizontal development of an in-house incentive point program (distributing points that can be used for asset formation and related services to employees) for employees, which some companies are already implementing. In addition, we will encourage the active use of neutral certified advisors at sites set up within companies to provide employees with consultations on asset formation.

[Strengthening company support for asset formation]

○ We will consider preferential tax treatment of corporate incentives designed for employees to invest in workplace installment-type NISA and employee shareholding associations.

○ Efforts to support asset formation by company-based employees is also important from the perspective of a human capital strategy. On the other hand, small and medium-sized enterprises (SMEs) have not made sufficient progress in their efforts to support asset formation, so it is necessary to provide a wide range of support, including for SMEs. Therefore, in order to spread workplace installment-type NISA, corporate-type defined contribution pension plan and iDeCo among SMEs, we will work to spread these systems and consider providing necessary support.

○ Furthermore, as shown in the "Guidelines for Human Capital Visualization" announced in August this year, corporate efforts to strengthen company-based employee asset formation are also effective in improving employee engagement. We will also utilize the Guidelines to encourage companies to actively disclose information on their efforts to support asset formation of employees.

8. Pillar 5: Enhancing financial and economic education to spread the importance of stable asset formation

[Spreading the importance of stable asset formation]

○ While only 7% of people acknowledge that they have received financial and economic education, more than 70% say that financial and economic education should be provided, suggesting strong public interest in such education. In addition, 40% cite "lack of knowledge about asset management" as the reason for not engaging in asset management. In order to spread the importance of stable asset formation to these groups, it is important to deliver financial and economic education.

○ In addition, various entities such as the government, the Bank of Japan and industry groups provide financial and economic education for schools and working adults, but opportunities to receive financial and economic education related to asset formation at schools and workplaces are limited. Financial business and industry groups are the main
providers of such education, which causes resistance among recipients.

○ Therefore, along with the business related to the certification of neutral advisors, as mentioned above, the new public organization will be established in 2024 as a neutral body to strategically implement financial and economic education in which the public and private sectors act in unity. At that time, the functions of the Central Council for Financial Services Information, of which the Bank of Japan serves as the secretariat, will be transferred to and continued by the new organization. Further, along with the Japanese government and the Bank of Japan, the cooperation will be obtained from private organizations, such as the Japanese Bankers Association and Japan Securities Dealers Association, in developing and establishing an operational structure, and securing operating expenses.

○ Led by the new organization for financial and economic education, we will develop a public relations strategy that appeals widely to the public, along with the enhancement of continuing education for company-based employees and the implementation of financial and economic education by local governments. Also, efficient and effective financial and economic education will be implemented nationwide through public-private partnerships, such as instructional visits to schools and companies as well as holding symposiums.

○ We will use the "Financial Literacy Map" and knowledge of behavioral economics as reference.

[Public outreach]

○ While making policy efforts to majorly expand NISA, reform the iDeCo system, create a neutral advisory system and enhance financial and economic education, we will also encourage those who have no investment experience (approximately 80 million people) to take a step toward asset formation.

○ For this reason, we will formulate a "Fundamental Policy" as a national strategy in order to comprehensively and systematically promote measures related to asset formation support for the entire country in cooperation with related government ministries and agencies, local governments and private organizations. In doing so, the Financial Services Agency will act as the secretariat, promoting cooperation among relevant ministries and agencies and coordinating measures and conducting follow-up. In addition, we will establish a forum such as a council to discuss and promote the measures necessary for asset formation through broad cooperation between the public and private sectors.
The new public organization will actively promote public relations aimed at all generations, including the dissemination of information on systems such as installment-type NISA, so that individuals can feel closer to investment opportunities.

From the stage of making preparations for the establishment of the new organization, public outreach activities will be carried out through councils and other bodies, with an appropriate division of outreach roles among financial business operators and other participants.

[Collaboration between public pension simulator and private sector services, etc.]

In April 2022, the "Public Pension Simulator," which helps users easily estimate how much pension they will receive in future, has been tentatively launched. In the future, by promoting cooperation with private sector services, it is expected that the users can easily check one’s own financial assets and the expected amount of future pension payments through apps and other online services operated by private businesses. In addition, analysis and management advice for owned assets will be provided on smartphones, to enable citizens to easily supervise and manage their assets. For this reason, in the current fiscal year we will conduct operational test on how to collaborate between the public pension simulator and private sector services.

9. Pillar 6: Realization of an international financial center open to the world

Investors and asset management firms are looking for channels amid the movement to review business continuity plans (BCPs) triggered by the COVID-19 pandemic and given the geopolitical uncertainties in East Asia.

Amid these circumstances, Japan has a safe and secure living and business environment supported by a stable democracy and the rule of law, as well as a large real economy, a stock market and 2,000 trillion yen in household financial assets. Taking full advantage of Japan's strengths, we have an opportunity to secure Japan’s position as an "international financial hub for the world and Asia," contributing to the development of the economies of Asia and Japan by smoothly absorbing and providing growth funds from around the world.

To this end, we will comprehensively promote (1) revitalization of the financial and capital markets that will contribute to new growth, (2) globalization of financial administration and tax systems and (3) improvement of the living and business environment that supports highly skilled foreign workers and the effective dissemination of information.

[Stimulation of financial and capital markets]
We will work to stimulate the financial and capital markets by facilitating the supply of funds that contribute to growth through startups and the resolution of social issues such as ESG, promoting corporate disclosure and corporate governance, strengthening market infrastructure and regulatory reform, among other measures.

(1) Support for startups

In Japan, although the number of listed companies is increasing, there is an issue often pointed out that their corporate values get stagnant after being listed, so-called "goal of going public." For this reason, in order for startups to attract funds from investors and grow without taking an option of going public, it is important to make it possible for existing shareholders to easily trade their unlisted stocks in the secondary markets. It is also important to support private-sector-led efforts to encourage unlisted companies to appropriately manage the list of shareholders, which is essential for conducting secondary transactions. Currently, securities companies are not allowed to operate Proprietary Trading Systems (PTSs) for unlisted securities for professional investors. To enable professional investors to trade unlisted stocks so that startups can grow without going public, we will amend the relevant cabinet ordinance of the Financial Instruments and Exchange Act within FY 2023.

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

(2) Stimulation of the ESG bond market, etc.

The amount of global issuance of ESG bonds is rapidly increasing (from 200 billion dollars in 2018 to 1.2 trillion dollars in 2021) in response to the growing global interest in environmental issues in recent years. In Japan as well, the amount of domestic issuance is increasing (from 500 billion yen in 2018 to 2.9 trillion yen in 2021), but considering the scale of the economy, there is a lot of room for further utilization of these bonds.

In addition, since the price correlation of ESG bonds with traditional investment choices such as stocks is low, for investors these bonds can be an effective option for risk reduction through diversified investment, and there is little room to hold down premiums under low interest rates. At the same time, it should be noted that if interest rates rise, the benefits of issuing green bonds may increase.

In order to steadily increase the amount of ESG bonds issued, it is necessary to visualize
sustainability efforts such as the use of proceeds (project details), fund management, utilization results/evaluation and corporate emissions, and to increase the credibility of green bonds and transition bonds (bonds whose proceeds are used for investments in transitions to decarbonization). To this end, the Ministry of the Environment will further expand the current guidelines, establish a corporate data platform in collaboration with the Japan Exchange Group (JPX), improve the environment for facilitating transition finance (improving sector-specific technology roadmaps) and further enhance disclosure regulations. Also, we will encourage efforts to expand ESG products with capital characteristics.

○ In addition, the Financial Services Agency will issue basic guidelines by June next year to expand "impact investment," which is aimed at broadly resolving societal issues not only providing economic benefits, including investment in social fields and investments in innovation.

(3) Investment in human capital
○ From the perspective of promoting constructive dialogues between investors and companies and supporting corporate governance reform, it is also important to make efforts to enhance disclosure of corporate information.

○ In order to focus on how information on human capital should be disclosed, in August we published the "Guidelines for Human Capital Visualization" as a comprehensive guide for organizing the direction to be taken. Efforts will be made to disseminate these guidelines, to encourage companies to actively utilize them in accordance with their own industries, business models and strategies, and to accelerate effective investment in human capital by deepening a mutual understanding among stakeholders that includes managers, investors and employees about how investment in human capital can be a source of long-term profit expansion.

○ Furthermore, for increasing corporate value over the mid- to long-term, we will promote the development of disclosure standards related to human capital and the enhancement of sustainability information disclosure, as well as lead the formation of international standards.

(4) Corporate governance reforms
○ Corporate governance reforms have progressed significantly over the past 10 years by formulating and revising the Stewardship Code and the Corporate Governance Code. However, further efforts should be made to make corporate governance reform more substantial in order to achieve companies' sustainable growth and increase corporate value over the mid- to long-term.
Therefore, we have established a forum to hear a wide range of opinions from stakeholders, including overseas investors. In the spring of 2023, we will compile an "Action Program" to promote corporate governance reform in terms of substance.

(5) Enhancing market infrastructure

- We will work to enhance the functioning of the market as a whole through addressing issues relevant to the easing of the upper limit for transactions at PTSs. In addition, financial instruments exchanges including the Tokyo Stock Exchange will encourage listed companies with a large amount of investment units of their stocks to reduce the amount of investment units.

(6) Revision of regulations on firewalls between banks and securities companies

- Regarding regulations on firewalls between banks and securities companies, one example is that it is prohibited to share bank customer information with group securities companies without individual agreement, which has viewed as a hindrance to businesses that seek to take advantage of digital strengths, such as information sharing and targeting. Given this situation, in regard to regulations on the transfer of customer information, in June this year it became possible to share information among banks and securities companies without the prior consent of customers, with the practice limited to listed companies.

- In the interest of promoting efforts to strengthen financial functions, such as making it easier to provide products and services that truly meet individual customer needs through maximizing the power of digital technology, we will consider how firewalls between banks and securities should be regulated and the kind of necessary regulatory response, while giving consideration to ensuring appropriate customer information management and the prevention of abuse of a dominant bargaining position.

[Globalization of financial administration and tax systems]

- In order to become "the Japanese market that is the choice of the world," we will aim for the highest level of administrative and support systems that can be said to follow best practices in light of global standards and a market that boasts the highest level of accessibility for financial-related human resources from around the world, and effectively communicate this. This will also contribute to improving Japan’s domestic investment environment for domestic investors.

- To this end, first we will actively approach overseas business operators to listen to their needs and expand public relations channels such as major overseas media, while always accurately identifying underlying needs and challenges related to business expansion
into Japan. Also, we will effectively and strategically expand PR channels for major overseas media and enhance a dedicated website for the "international financial center".

○ We will strengthen the functions and structure of the "Financial Market Entry Office," which was newly established last year to enable registration and supervisory processes in English, and provide closer support to overseas financial operators, such as government administrative services and credit guarantees.

○ In addition, as we promote efforts to become an "international financial center," it is undeniable that Japan's tax burden is a weakness, although it is fundamentally different from the tax situation in countries and regions such as Hong Kong and Singapore. For this reason, revisions to the taxation system related to executive remuneration at asset management firms and revisions to inheritance tax imposition on highly skilled foreign financial-related professionals have already been made. However, we will identify the tax system issues starting with those seen as barriers to entry into Japan from the perspective of highly skilled overseas financial-related human resources and financial business operators, as well as the various tax issues associated with becoming an "international financial center," and take measures to make necessary revisions.

[Improvement of the living and business environment to support highly skilled foreign financial-related human resources]

○ We will improve the living and business environment to support foreign nationals with advanced financial skills, including by encouraging financial institutions to facilitate procedures for them to open a bank account, which is essential to starting up a life and businesses.

10. Pillar 7: Ensuring customer-oriented business conduct

○ In order to bring about stable household-based asset formation, it is important to realize a "virtuous circle of funds" in which the fruits of growth are distributed to households. Therefore, it is necessary for each participant in the investment chain, in which customers and beneficiaries make investments in investee companies and dividends accompanying improvements in investment value are returned to households, to fully perform their expected functions. For this reason, we will create an environment to encourage financial services providers and those involved in the operation of corporate pension systems to institute a cross-section of necessary measures to establish and raise the level of initiatives that are in the best interests of customers.

○ With regard to sales companies, it has been noted that they may be selling products whose risks are difficult to understand and costs may not be reasonable compared to expected returns. It is important to provide financial products that meet the needs of
investors in an easy-to-understand manner, including for inexperienced investors. For this reason, companies need to operate in the best interests of customers. Also, we will further strengthen the promotion of "customer-oriented business conduct" by urging that the costs, such as commissions, of financial products, including insurance, and the possibility of conflicts of interests be made visible through rule-making and other processes.

○ It has been noted that asset management firms and financial product structuring companies are creating and managing financial products that prioritize sales promotion rather than customers. Under an appropriate governance and management system, we will review the "Principles for Customer-Oriented Business Conduct" and develop necessary rules in order to 1) properly allocate human resources having true expertise (abandon the dispatch of personnel from the parent company) and set appropriate duties and remuneration for such human resources and 2) thoroughly implement governance for product development, sales and analysis of results from the customer's point of view, and increase the sophistication of customer-oriented product composition, sales and operations.

○ In the interest of maximizing benefits for beneficiaries, asset owners (including corporate pensions) need to strive to achieve appropriate investment returns based on the nature and scale of their assets. For this reason, the relevant government ministries and agencies will work together to develop a system for continuous dialogue with a wide range of stakeholders, and promote measures to improve operations, such as implementing survey-based research related to operational systems and methods and sharing and disseminating best practices.

End of Document
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