

# Report of the Working Group on Asset Management

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The Working Group on Asset Management

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## **I. Introduction**

The establishment of Tokyo's status as a global financial center will not only enhance the development of Japan's financial and capital markets, but also be a significant growth strategy for maintaining and sustainably promoting long-term economic growth in Japan.

For this reason, the Council for Tokyo Global Financial Center Promotional Activities, — established jointly by the Japan Securities Dealers Association (JSDA), Japan Exchange Group, Inc. (JPX), The Investment Trusts Association, Japan (JITA) and Japan Investment Advisers Association (JIAA) — released a report in September 2015 summarizing its deliberations on Japan's strengths, the role and issues surrounding Tokyo as a global financial center, and the steps that need to be taken by the securities industry and the asset management industry.

The 2015 report noted the need to develop and offer more appealing financial products and services to stimulate capital markets by leveraging Japan's strengths including its enormous amount of individual financial assets. The report placed sharp emphasis on the major role anticipated for the asset management industry. However, some noted that, to consider the size of its economy, Japan's asset management industry is inferior to those of other jurisdictions, and also that strengthening the asset management industry would be the most effective way to develop Tokyo into a global financial center.

Considering the asset management industry's issues outlined in the report as well as the government and other groups' proposals to popularize investment trusts, the council set up the Working Group on Asset Management (WG) under its auspices in September 2015. The WG is jointly organized by JITA, JIAA and JSDA to deliberate, especially from the viewpoints of the securities industry and asset management industry, on ways to strengthen the asset management industry and provide investment products that would tie in with investors' medium- to long-term asset building.

The Report of the Working Group on Asset Management is a summary of the discussions of the WG during nine sessions on ways to create an environment that would strengthen the asset management industry, improve the capabilities of asset management companies to manage assets, foster people in Japan in asset management, put into practice the fiduciary duties of asset management companies, and provide investment products intended for medium- to long-term asset building.

## **II. Issues and initiatives for strengthening asset management capabilities and enhancing confidence in the asset management industry**

Given Japan's declining birthrate and aging population, it is essential to effectively manage approximately 1,700 trillion yen of household financial assets and pension assets for post-retirement

funds. Accordingly, the asset management industry is expected to play a more significant role in providing citizens with a variety of ways to manage assets. Currently, Japan's asset management industry is significantly behind the US as the data shows: assets under management of publicly offered open-type investment trusts grew 1.94 times from December 1995 to September 2015 in Japan, significantly below the 5.44-fold increase in the US during the same period (Reference 1). We consider that this result is a reflection of such factors as a difference in the level of popularization of defined contribution (DC) pension plans, and there is considerable room for growth in Japan's asset management industry in light of Japan's recent actions to reform the DC system and to tackle deflation.

It is also essential for asset management companies to make comprehensive efforts toward improving their capabilities in order to provide customers with stable and superior performance for the medium to long term while playing the role of leading Japan's economic growth. For this reason, the WG discussed many issues and initiatives that would improve their asset management capabilities and build trust in the asset management industry. These issues and initiatives include the recruitment, retention and training of human resources, the fulfillment of asset management companies' fiduciary duties, and the globalization of investment trusts.

## 1. Attracting highly skilled financial professionals and setting up training facilities

### (1) Current state and issues

Global financial centers such as New York's Wall Street and the City of London are home to New York University and the London School of Economics, both of which offer the fundamental education needed to be a professional in the finance and asset management fields. These institutions bring the practical and theoretical worlds closer together, and have achieved major successes in programs for producing highly skilled financial professionals with close links to industry.

In Singapore, which has been developing as a global financial center in the asset management sector, the national strategy to provide training programs in finance and asset management including wealth management has produced good results. This model in Singapore could be a good reference for the development of training programs in Japan. The major features of the Singapore model for developing personnel to be highly skilled financial professionals are:

- i) A system to certify ability and skills (FICS),<sup>1</sup> working together with the public and private sectors to provide training that develops the strengths and skills of financial professionals and

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<sup>1</sup> FICS, the Financial Industry Competency Standard, was introduced in 2005 by the non-profit Institute of Banking and Finance (IBF) made up of 200 member financial institutions, with the support of the Monetary Authority of Singapore (MAS), the Singapore Workforce Development Authority (WDA), and private sector companies. Now called the IBF Standards, these standards cover 10 sectors and certify 52 occupations, with programs provided by the National University of Singapore, among other institutions.

practical experts.

- ii) Establishment of educational institutions to develop personnel into professionals, and education and cultivation at these institutions (particularly in the wealth management sector).
- iii) Collaboration and support from private-sector financial institutions for projects including surveys and research by universities and graduate schools.
- iv) Admission of foreign personnel to such educational institutions as the Wealth Management Institute, with the aim of creating an international network of financial professionals.

In this way, Singapore has been training people with a long-term strategic approach as a major pillar of its national strategy.

On the other hand, in Japan, training and education for financial professionals are provided mainly by individual companies internally, while there are a number of proactive approaches at graduate schools to train students in the financial field. However, we need a national strategy, like the strategy in Singapore, to develop Japan into an investment management-oriented country and also to develop integrated training programs that are useful for a broad range of financial professionals in collaboration with the public sector, industry associations and the private sector.

In addition, similar to the examples of the US, the UK and Singapore, locating training facilities near offices can be effective for personnel to acquire the latest academic knowledge and to apply new knowledge to operations in their workplaces while they continuing to work.

Furthermore, it is necessary to recruit qualified educators at universities and to create outstanding education systems because Japanese universities are lagging behind those in other jurisdictions in the quality of research in finance and asset management. However, this will require a huge amount of money, and university budgets are constrained. Therefore, collaboration with the financial industry will deserve consideration to create more financial programs as cases in other jurisdictions such as Singapore indicate.

## (2) Future initiatives

To attract and set up facilities to train highly skilled financial professionals, there have been deliberations about establishing this type of facility as part of an initiative to cluster the asset management industry within the Kabuto-cho Redevelopment Project (see IV. Issues and initiatives for improving the business environment, 3. Clustering the asset management industry in Kabuto-cho). Related associations should also support this project, as necessary. How to implement the following measures should be considered when designing links with this project.

- i) Building a generic, unified training program for financial professionals that links the public sector, industry associations, and the private sector.

- ii) Collaborating with educational institutions that are committed to finance research (for example, by introducing a cross appointment system<sup>2</sup> between asset management companies and graduate schools, etc.).
- iii) Creating study support programs at asset management companies (for example, introducing a system for learning at a graduate school, etc. while working at an asset management company).
- iv) Training executives who are supervising asset management companies, not only portfolio managers.
- v) Operating the programs mentioned above for training financial professionals (including how to collaborate with educational institutions, such as graduate schools).

## 2. Securing human resources for asset management

### (1) Current state and issues

The lack of human resources for asset management industry (lack of depth in the pool of capable people) is a serious issue as Japan promotes becoming a global financial center. It is also said that the lack of opportunities to demonstrate skills in Japan means that talented portfolio managers are leaving the country. Other impediments to attracting talented human resources for asset management from overseas are Japan's living conditions, such as Japan's burdensome tax system, particularly income and inheritance taxes, and the lack of elementary schools and junior high schools able to provide high standards of education in English.

On the other hand, Singapore, where they successfully find talented personnel due to the acceptance of global human resources for asset management, takes a long-term approach. Based on clearly presented policies that aim to strengthen the financial industry, several programs have been implemented to create an international network of financial professionals. Further, using this network as part of their new national strategies is working well.

Considering the current state and the example of Singapore, etc., it would be effective to create a business environment that included, for example, preferential tax treatment for highly skilled financial professionals to lure talented people back who have gone overseas and to stem the outflow of people in the financial industry to secure global human resources for asset management, in addition to training to be highly skilled financial professionals, as noted in 1 above. These actions are essential for acquiring human resources from overseas for asset management companies (asset

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<sup>2</sup> A cross appointment system allows for the employment of researchers, etc. at two or more institutions, such as universities, public research institutes, or companies. This system enables them to research, develop, and teach in ways that match their role and the distribution of effort at the respective institutions.

management teams), and to fully use their abilities in Japan. In addition, virtually all the asset managers already have professional experience, even when they are newly hired by the company. There is a clear need to consider specific training for the asset management industry, such as recruiting recent graduates.

## (2) Future initiatives

It is necessary to implement the following initiatives when securing domestic and overseas highly skilled financial professionals to strengthen asset management capabilities in the asset management industry.

- i) Every asset management company should aim to train a diverse range of portfolio managers, and create career development and salary systems appropriate to treat and recruit professionals.
- ii) Asset management companies contemplating hiring people from overseas should create an English language environment.
- iii) For the tax system and living conditions for foreigners, work on sharing a wide ranging awareness with the relevant authorities.

## 3. Asset management companies fulfilling their fiduciary duty

Asset management companies need to improve their investment and risk management capabilities based on the nature and size of the respective investments to provide customers with medium-to long-term stable and superior performance while catering to the varied investment needs of household financial assets and pension funds, etc. Asset management companies need to fully demonstrate their best efforts when using their professional capabilities for their customers' benefit. These professional asset management services are requested by customers based on their trust (i.e. investment decisions are delegated by customers) and asset management companies thus fulfill their fiduciary duty.

The WG discussed initiatives to strengthen the governance of investment trusts and increase confidence in asset management companies to put their fiduciary duty into practice for their customers.

### (1) Strengthening governance at investment trusts

#### (a) Current state and issues

Japan's investment trusts have developed as a powerful "tool" for the asset building of citizens. However, given the enormity of the economy and the size of household financial assets in Japan, asset growth by investment trusts has been slow compared with other jurisdictions. If Japan's investment trusts are to appeal to foreign investors as well, while promoting asset building

through the use of investment trusts, further discussion is required on how to increase investor confidence and the shape of measures that contribute to investors' long-term requirements. This discussion should be based on examples from other jurisdictions where there have been major developments in the investment trust market. This will require improved governance of investment trusts, particularly considering the international debate in recent years, as well as the following points.

- i) The need for consistency with the principles set out in the *Examination of Governance for Collective Investment Schemes* published by IOSCO. (In particular, a comparison of Japan's investment trust legislation with similar programs in other jurisdictions underscores the lack of explicit regulation of independent institutions that supervise funds.)
- ii) Establishing provisions within investment trust management companies that give third parties the opportunity to express views from the perspective of a beneficiary as an independent director, advisory board, or fund supervisory committee would help clarify the fiduciary duties of these companies. However, from an overseas perspective, an external committee without decision-making power could be seen as unable to improve governance significantly and would likely not be cost effective.
- iii) There is no statutory requirement under Japan's investment trust system for an independent monitoring institution with specific authority that has people who represent the interests of beneficiaries. Therefore, the existing system tends to foster distrust and raise concerns that conflicts of interest are not being clearly managed.
- iv) In addition, the absence of such an institution makes it difficult to put forward motions, even when they would clearly benefit all parties.
- v) Mechanisms should be considered from the perspective of beneficiaries that would facilitate redemption or consolidation of small funds where appropriate. This would also likely enhance the management efficiency of investment trust management companies.
- vi) The investment company structure — easily understood by foreign investors and where governance is clear from an investor's perspective — would be effective not only for real estate investment companies but also for investment trusts that are mainly invested in securities.
- vii) Clear governance would also increase the appeal to foreign investors, particularly for prospective overseas sales of Japanese funds using the Asia Region Funds Passport (ARFP) system.
- viii) In relation to point vi) above, it will be necessary to consider the cost and placement of personnel, as well as the practical issues, when improving the governance of investment



trusts. For example, adopting an investment corporation system leads to a direct increase in the management costs of the fund, which is not easy to accomplish when funds have small asset values, and this is a barrier to entry for emerging asset management companies.

- ix) The governance of investment trust management companies and investment trusts needs to be done through self-regulatory rules, etc. Furthermore, there needs to be a legally empowered decision-making authority.

#### (b) Future initiatives

In order for investment trusts to be selected as a core method for the long-term asset building of individual investors, confidence in investment trusts needs to grow, and investor perspectives need to be better reflected in product design and investment management. Therefore, JITA should consider the following initiatives for investment trust governance to explore measures with immediate impact for Japan's situation, while considering examples from other jurisdictions.

- i) Surveying and reporting on overseas examples that provide a reference for the governance of investment trusts to boost the confidence that foreign investors have in Japan's investment trusts and to respond to the long-term asset management needs of domestic investors.
- ii) Collecting and reporting on examples of how investment trust management companies have strengthened governance (for example, independent directors, advisory boards, fund supervisory committees, etc.).
- iii) Considering measures to strengthen the governance of investment trust management companies and investment trusts, taking into account management efficiencies, based on each example from investment trust management companies noted in ii) above, as well as looking at ways to further increase investor confidence, including overseas investors.
- iv) Verifying the practical issues for the building and sale in Japan of funds that invest in securities using the investment corporation system and encouraging stakeholders to make improvements.
- v) Discussing with relevant entities, such as investment trust management companies, trust banks that act as trustees, and sales companies, on consolidating and redeeming investment trusts while looking at ways to have a flexible response from investment trust management companies to improve efficiency and respond to investor interests.

### (2) Initiatives to improve trust in asset management companies

#### (a) Current state and issues

Many financial institutions already claim to have a "customer first" management philosophy,

yet many Japanese financial institutions, including asset management companies, are still unable to receive an acceptable level of confidence from Japan's citizens.

The Strategic Directions and Priorities 2015-2016 noted, while supporting private-sector voluntary initiatives to fulfill their fiduciary duty, that it is necessary to look into whether financial institutions handling the product development, sales, operations, and asset management of investment trusts and savings insurance products, etc. are actually acting for the benefit of customers. Some have pointed out that Japanese financial institutions, including asset management companies, have not fully maintained public confidence and that this might indicate the need to have more thorough fulfillment of fiduciary duty.

For example, according to Edelman's *Trust Barometer*, the level of trust in the "financial services" sector in Japan remains comparatively low (Reference 2). Furthermore, within the "financial services" sector, the lowest level of trust is given to the "investment advisors/asset management" sector.

Trends in the UK and the US concerning fiduciary duty indicate a renewed awareness of its importance, while moves to regulate this are also evident.

Meeting the fiduciary duty of asset management companies concerns product and performance as well as the governance structure and transparency of asset management companies' management (specifically, identifying elements of conflict of interest that exist with customers, explicit preventive measures to eradicate these conflicts, etc.). Fulfilling fiduciary duties will be impossible without simultaneously resolving both of these types of concerns. Consequently, there are also moves to declare the intent to fulfill fiduciary duty through public declaration documents. Opinions and examples of each company's initiative in this area are provided in Appendix 1.

In addition, accepting fiduciary duty as an obligation to do the very best to benefit customers indicates a close relation to the activities under the Stewardship Code. Specifically, by undertaking activities such as engagement under the Stewardship Code, an asset manager (or asset management company) will aim to increase the profits of companies in which it invests to help improve the level of overall corporate governance. As a result, there will be improved performance for customers as asset owners as well as a contribution to fulfilling fiduciary duty. In addition, to meet its fiduciary duty, an asset management company should be steering in the same direction as the customer, i.e., to maximize customer profit. Improving customer profit will also increase the profit of the asset management company.

#### (b) Future initiatives

When aiming to increase confidence in asset management companies, it is necessary for asset management companies, JIAA, and JITA to consider the following initiatives:

- i) Every asset management company should promote specific initiatives for fulfilling their fiduciary duty, which is required to become an investment manager that earns the trust of citizens.
- ii) Because undertaking activities such as engagement with the Stewardship Code are beneficial to customers as asset owners, JIAA should continue its *Survey on the JIAA member companies to the questionnaire for the Japan Stewardship Code* (started in 2014) aimed at understanding the level of stated acceptance of this code by its members and the system infrastructure for further spreading, consolidating, and embedding the code among asset managers and to provide co-ownership of best practices.
- iii) JIAA has been convening the Expanded Corporate Governance Workshop since 2014, and based on the requests and expectations of asset managers by customers as asset owners, will continue to convene this workshop in fiscal 2016 under the theme of “the role of asset owners and the expectations that asset owners have for asset managers” aimed at increasing customer trust. JIAA should publish the details externally.
- iv) JITA should promote member compliance with the Stewardship Code and consider initiatives to foster activities, such as appropriate engagement.

#### 4. Globalization of investment trusts

Japan has decided to participate in the Asia Region Funds Passport (ARFP) framework and is scheduled to implement the necessary launching procedures by relevant stakeholders. Therefore, while Japan prepares a framework to enable the sale of Japanese investment trusts to investors in participating jurisdictions, Japanese investors will also find it easier to invest in investment trusts domiciled in the Asian region. Using this framework, the international competitiveness of Japan’s asset management industry will also be vitalized by its participation.

Active competition with overseas investment trusts will benefit the future development of Japanese domestic investment trusts. The government and the industry will need to collaborate on adapting domestic systems and practices so that Japanese investment trusts may not be exposed to a competitive disadvantage. It will be important to review the current systems and practices flexibly for Japanese investment trusts to be evaluated globally. From this perspective, further improvements in efficiency and standardization will be required by reviewing current regulation and commercial practices, and by referring to examples from other jurisdictions of operations related to the management of investment trusts. This should also eventually lead to lower costs for Japanese investors.

##### (1) Promotion of the ARFP framework

(a) Current state and issues

Investment trusts established and sold in Japan are not currently sold to foreign investors, but Japan's participation in the ARFP framework will make it easy to sell Japanese investment trusts with certain criteria to investors in participating jurisdictions. Participation in this framework will also make it easier for Japanese investors to invest in investment trusts in the Asian region. Through such environmental changes, domestic investment trusts are expected to improve their competitiveness. The current Japanese investment trust system is unique compared with other jurisdictions, and is facing challenges regarding its attractiveness overseas in its current form. The domestic system will also need to change in line with global standards for future development.

In addition, introducing the ARFP framework will also make it relatively easy to sell funds in other jurisdictions, while welcoming overseas competitors. Therefore, increasing the competitiveness of domestic investment trusts will become very important. Some people have also recognized that flexible regulations should be adopted for the more prompt launching of funds. In addition to this, deliberations are also required to review prospectuses and marketing materials to facilitate access by overseas investors. The international development of domestic investment trusts and the opportunity to provide them to investors in many other jurisdictions through the introduction of the ARFP framework will not only increase the international competitiveness of the Japanese asset management industry, but will significantly contribute to the clustering of the funds industry in Tokyo.

(b) Future initiatives

It will be necessary for investment trust management companies and JITA to proceed with the following initiatives to provide Japanese investment trusts to investors in a wide range of jurisdictions through the ARFP framework and to strengthen and develop the domestic asset management industry.

- i) Investment trust management companies aiming for global development should consider developing attractive products, toward the introduction of the ARFP framework. Simultaneously, they should consider attractive fund structures to appeal to overseas investors. They will also be needed to take into account conformity with other fund passports, such as UCITS, providing attractive products to a wide range of investors beyond jurisdictions participating in ARFP.
- ii) JITA will consider rationalizing and streamlining various practices surrounding investment trusts, based on global standards. Further, these considerations will tie in with the initiatives noted below in IV. Issues and initiatives for improving the business environment, 2.

Rationalizing and optimizing the middle/back-office.

- iii) JITA will appeal to the Japanese authorities to review domestic regulations to maintain institutional competitiveness compared to other jurisdictions taking into account the trends in those jurisdictions.

## (2) Revising the NAV calculation

### (a) Current state and issues

The Net Asset Value (NAV) calculation for investment trusts is an important operation for the fair handling of subscriptions and redemptions for investors. The current requirements under investment trust legislation and trust legislation mean, in practice, that both investment trust management companies and trust banks acting as trustees are calculating and comparing the daily NAV.

Nevertheless, this system where both entities calculate and compare NAV is not necessarily the same practice as in other jurisdictions. In addition, some jurisdictions also have materiality policies covering the calculation of NAV, such as remedies based on the relative importance when a mistake has been made in the NAV. Therefore, NAV calculation operations are said to create an excessive burden for investment trust management companies when compared with other jurisdictions. On the other hand, there are also suggestions that even if calculation operations were outsourced to optimize the operations, this would not mitigate the investment trust management company's responsibilities, so the operational burden is not necessarily reduced.

While noting these suggestions, deliberation is required on the rationalization and optimization of operations with revisions in areas such as related laws and ordinances as well as commercial practices, taking into account of the requirement to strengthen asset management capabilities while accurately calculating the NAV.

### (b) Future initiatives

It is necessary for JITA to exchange views with experts, investment trust management companies, and trust banks that act as trustees concerning methods and other aspects of the NAV calculation of investment trusts from the perspective of maintaining and improving the competitiveness of the Japanese asset management industry and to sort out the issues to find more efficiency and the viability of customary international practice.

When sorting out these issues, it will be necessary to tie-up with the initiatives noted in IV. Issues and initiatives for improving the business environment, 2. Rationalizing and optimizing the middle/back-office.

## 5. Promoting the FinTech business

### (1) Current state and issues

The need for a stronger and more sophisticated Japanese asset management industry is noted above. First, handling issues 1. to 4. is important. Apart from this, people have said that Japan should also deliberate on the promotion of the asset management-related FinTech business due to the anticipated shift to IT and the overseas success that is already evident for businesses with robo-advisors using artificial intelligence and asset management software. The use of FinTech will promote the entry into the market of new asset management companies and foster competition for existing asset management companies, which will stimulate the industry as a whole.

### (2) Future initiatives

The Financial Services Agency established a Panel of Experts on FinTech Start-ups in April 2016 to explore ways of creating a FinTech ecosystem.

It is appropriate for related associations to promote the use of asset management-related FinTech by tying-up with initiatives by the Financial Service Agency through this panel, etc.

In addition, to assist with adopting asset management-related FinTech, consideration is being given to incubation services, such as small offices in the Kabuto-cho Redevelopment Project, to support setting up asset management-related FinTech start-ups as part of the initiatives to cluster the asset management industry. (See IV. Issues and initiatives for improving the business environment 3. Clustering the asset management industry in Kabuto-cho.)

It will be required of related associations that they provide the support necessary to consolidate the aforementioned initiatives in that project (for example, by providing support related to the registration and approval procedures in accord with the Financial Instruments and Exchange Act.)

## **III. Issues and initiatives for providing products that contribute to medium- to long-term asset building**

In Japan, cash and deposits account for a high proportion of individual financial assets. However, since Japan is expected to undergo decline and further aging of the population, individuals will need to build assets more stably through medium- to long-term and diversified investments. In order to meet their needs, asset management companies and sales companies will also need to fulfill their respective roles: asset management companies creating products that contribute to medium- to long-term asset building, and sales companies providing these products to investors in a suitable manner.

In addition, developing and providing products that contribute to medium- to long-term asset building will lead to an appropriate supply of risk money and market depth, achieving a more vibrant market and

sustainable economic growth in Japan.

In view of the above, the WG discussed the issues and measures for providing products that will contribute to medium- to long-term asset building for investors.

## 1. Promoting the development and sales of products that contribute to medium- to long-range asset building

### (1) Current state and issues

Investment trusts (including ETFs and REITs) can be considered the core vehicle for medium- to long-range investment as well as diversification for retail investors. Investment trusts can also be considered as appropriate products for investment by retail investors, as the risk can be reduced through diversification, efficiencies can be gained by pooling funds, and the expertise of specialists can be utilized even for small amounts of investment.

Ideally, investment trusts should be tailored to long-term investment needs, but investment trust management companies may have developed products with short-term appeal to investors, and other companies may have followed this trend. This may also have reduced the scope of available products to investors. Investors have diverse needs, and while there is scope to debate the validity of this, investment trust management companies should further clarify their approach for long-term investment by creating focused products that provide medium- to long-term profit for customers, in order to boost investor confidence in investment trusts, and by managing products that contribute more to the medium- to long-term asset building of individuals.

In selecting investment trusts, sales companies gather information, including customer needs, from wide-ranging sources. They are increasingly taking note of the objective quantitative and qualitative assessments institutions when independently selecting products of their affiliated corporate groups (a shift to an open architecture). In addition, while there is a clear need to promote diversified long-term installment investments to contribute to the medium- to long-term asset building of households, employee training and revisions to performance assessments have reportedly led to an increase in the number of installment accounts for investment trusts and have extended the term for which investment trusts are held.

Therefore, there are signs of a transition to a business model more focused on asset balances based on medium- to long-term asset building. Initiatives to promote sales of products that contribute to medium- to long-term asset building have begun. However such initiatives appear to be limited so far, and tend to focus on sales of a limited group of top-selling products. More attention is required in relation to the idea that an open architecture of systems in distributing investment trusts will be called for to handle a diversified range of products.

On this point, it would be better if sales companies exercised greater ingenuity and planning in

relation to the following issues, for example to promote the sales of products that contribute to medium- to long-term asset building of households, particularly the working generation.

- i) More in-depth understanding of customer characteristics and needs
- ii) Changes in ways of thinking of employees and a revision of the personnel evaluation system (to incentivize the promotion of medium- to long-term investment)
- iii) A more finely tuned approach to customers (explanations when soliciting, follow-up, holding seminars, etc.)
- iv) Selecting investment trusts that reflect customer needs (select based on an objective assessment and not sticking to a *keiretsu* corporate group, etc.)

## (2) Future initiatives

### (a) Initiatives at investment trust management companies

When forming investment trusts, it is appropriate for all investment trust management companies to first consider the customer's needs and potential benefits, and then to provide products that contribute to the medium- to long-term asset building of customers from a range of products that cater to those various needs using the company's own distinctive advantages to make long-term investments. In addition, when developing investment trust products it is desirable to have in-depth verification of whether the characteristics of the products and the rates and the system of compensation for managing the investment are appropriately structured.

### (b) Initiatives at sales companies

Within sales companies, there are already examples of initiatives concerning the issues outlined in (1) above, as set out in Appendix 2.

All sales companies are requested to continue deliberations to provide products which contribute to medium- to long-term asset building, while referring to the WG arguments and representative examples.

The JSDA will deliberate on measures it can take to assist with the voluntary initiatives of each sales company and to share each company's initiatives across the industry.

## 2. Provide more information to customers

### (1) Current state and issues

To promote investment in products that contribute to medium- to long-term asset building, information about the economic environment and market trends that contribute to investment decisions as well as any special characteristics, risks, and fees for products needs to be provided to customers in a timely and appropriate way, taking into account the customer's knowledge and



experience. In particular, it is important to recognize that it is hard to objectively assess the characteristics and distinctive traits of some financial products, particularly in comparison with other products. There is also a tendency to excessively focus on dividends and the costs and/or commission associated with financial products. This focus might result in an assessment based primarily on a comparison of costs and dividends instead of the investment policy and investment techniques. Consequently, attention needs to be paid to this tendency, and more efforts should be made to provide information on the financial products to prospective investors.

In the past, many improvements have been made to legal disclosure documents and prospectuses for investment trusts. Revisions have been made not only to the content of the disclosed information but also to the use of charts and terminology for easier understanding by investors. In addition, investment trust management companies have continued to boost their efforts to provide information to investors as well, such as issuing voluntary monthly updates on the status of investments that are more frequent than those legally required. These efforts have improved the usefulness of the information on investment trusts disclosed to investors.

Nevertheless, it is important to promote initiatives that make it easier to understand the merits of investment trusts, and the usefulness of long-term installment investments and diversified investment to broaden the investor base and foster long-term investment by people with limited investment experience. In this regard, investment trust management companies need to make further improvements by making an effort to provide easily understood explanations by further simplifying terminology and by using charts, while actively disclosing their investment policies and investment philosophy.

In addition, arrangements are also needed that make it easy for investors to gain a real sense of the impact of an investment, by providing performance information related to individual investment trusts on the JITA Web site. This Web site may be improved to allow investors to objectively understand the usefulness of long-term installment investments, for example, by providing hypothetical calculations for an investment with a fixed monthly installment amount.

Although sales companies are becoming imaginative and creative in relation to the content, design, and format used to provide information to customers, there is still scope for improvement to create explanatory materials that are easy to understand from a customer perspective, and to provide information at the level of customer knowledge and experience. In particular, more tools and deliberation are required on how to provide information to boost the medium- to long-term asset formation of people with limited investment experience. This includes providing materials with simplified terminology from a customer perspective, easy-to-understand explanations through illustrations, easy-to-understand disclosure of the fees on investment trusts, simplified explanations

about the usefulness of long-term installment investments and diversified investments, and comparative information for investment trusts (including, for example, introducing suitable products for long-term installment investments, NISA, and Junior NISA).

## (2) Future initiatives

### (a) Initiatives from investment trust management companies

It would be appropriate for investment trust management companies and JITA to take the initiative to make information disclosure on investment trusts more useful for investors.

- i) Every investment trust management company should use methods in prospectuses and other documents that are easy for investors to understand in relation to the terminology and other contents.
- ii) JITA should introduce procedures at the Investment Trusts Comprehensive Search Library that not only allow for the hypothetical calculation of performance for past fixed investments at a set point in time, as is currently provided, but also introduce tools to calculate the performance for fixed amount monthly installment investments. In addition, JITA should request that all members provide a link to the association's Web site to expand the use of the Investment Trusts Comprehensive Search Library.

### (b) Initiatives at sales companies

Some sales companies that are already aware of the issues outlined in (1) above are preparing easily understood explanation materials with charts, easy-to-understand explanations about the products, and various investment-related systems with handbooks, etc. for people with little or no investment experience. Sales companies should continue to deliberate and devise ways to improve the quality of the information provided for customers, while referring to the discussions and examples introduced at the WG.

The JSDA will deliberate on measures that it can take to assist with the voluntary initiatives of sales companies and to share these initiatives across the industry.

## 3. Promoting the use of defined contribution (DC) pension plans, expanding and perpetuating the NISA and Junior NISA tax exemption systems

### (1) Current state and issues

As noted in 2. (1) above, investment trusts are considered the main effective method that enables individuals to invest in the medium- to long-term and with diversified portfolios.

In fact, investment trusts are more actively used as such a method in the US and Europe than in Japan; investment trusts account for approximately 13 percent of household financial assets in the

US, more than twice the level in Japan.

This higher proportion of investment trusts in the US and Europe has arisen partly as a result of preferential tax treatment for individual investors. For example, approximately 45 percent of outstanding investment trusts in the US have been managed through tax-favored pension systems, i.e., Individual Retirement Accounts (IRAs) and workplace DC plans (Reference 3). This figure suggests that many Americans have purchased investment trusts through investment systems designed for individual investors and that these systems have in turn helped to develop the investment trust market at the same time. Furthermore, the UK and Australia have systems that obligate companies to contribute to the private sector pensions of their employees, and these systems function as a major contributor to the expansion of the investment trust market.<sup>3</sup>

In Japan, while asset building environments have been improved, further work needs to be done to improve systems for asset building<sup>4</sup> to ensure that they are be more convenient for investors and that sales companies can promote initiatives to popularize these systems by investing more management resources.

Therefore, Japan should also aim to promote the use of DC plans as well as expand and perpetuate the NISA and Junior NISA tax exemption systems (increase in the annual upper contribution limit, perpetuation of tax exemption and account opening periods, etc.) .

The following initiatives are examples that are likely to promote the expansion of NISA and Junior NISA and the use of DC pension plans.

- i) Expand, simplify and perpetuate the NISA and Junior NISA
- ii) Popularize workplace NISA
- iii) Abolish the special corporation tax on corporate pensions (DC plans, etc.)
- iv) Lift the cap on the level of contributions for DC plans
- v) Promote the inclusion of risk products, such as balanced-type investment trusts, as a designated investment method for DC plans
- vi) Popularize individual DC plans (e.g. expand the base of financial institutions in which these plans are available, etc.)

## (2) Future initiatives

Promote the following initiatives to expand NISA and Junior NISA, popularize these systems and

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<sup>3</sup> In the UK, the automatic participation DC plan, the one targeting all business owners, began with the government's National Employment Savings Trust (NEST) in October 2012. In Australia, since 1992 business owners have been required to contribute to employees' accounts of superannuation funds (private pensions) from their payrolls.

<sup>4</sup> Examples of further system improvements could include making NISA and Junior NISA perpetually available and allowing for switching, as well as lifting the cap on contributions to DC plans.

stimulate the use of DC plans.

(a) Industry initiatives

The tax reform requests from the securities industry and the asset management industry for fiscal 2017 include: expanding NISA and Junior NISA, simplifying and perpetuating these systems, abolishing the special corporation tax on DC plans, and lifting the cap on contributions to DC plans.

Since last fiscal year, the JSDA has advertised NISA and Junior NISA in TVCM (television commercials) and in newspaper ads, etc. The JSDA will continue these advertising activities during fiscal 2016 to make Junior NISA more popular among investors, to increase their interest in the NISA and Junior NISA, and to deepen their understanding of these systems.

The JSDA will also continue to work with JITA in a working group that supports individuals' independent efforts to build assets, deliberating on issues to popularize and promote workplace NISA and DC plans (particularly individual DC plans).

(b) Encouraging the government

The amended Defined Contribution Plan Act was enacted in May 2016. Following this favorable situation, the JSDA and JITA should both continue to encourage the relevant government authorities to deliberate on the following topics for the accomplishment of the DC plans' original goal so that they help participants build sufficient assets for their post-retirement.

- Setting an appropriate standard to select default investment methods that contribute to asset building, instead of the method of guaranteed principal products,
- Discussing the current limits on the number of investment products designated for the plans and improving the utility of the plans for participants, and
- Easing the prohibition on simultaneously holding two posts for asset management operations of DC plans and product sales operations to popularize and promote individual DC plans (i.e., expanding the base of financial institutions in which these plans are available.).

#### 4. Raising financial literacy

(1) Current state and issues

To further promote individuals' asset-building, it is necessary to raise financial literacy for making an appropriate choice of financial products with varying risk and returns, including an understanding of the effectiveness of diversified investment (diversification of asset class as well as timing) and long-term investment.

According to the National Survey of Securities Investment conducted in 2015, approximately 40 percent of the respondents who answered that they feel no need to invest in securities chose "lack of

knowledge concerning finance and investments” as a reason for their answer. Furthermore, only 11.8 percent of all respondents recognized that investment trusts can reduce investment risks through diversified portfolios, and 6.5% of respondents knew a method of cumulative investment through regular fixed contributions to investment trusts. These responses highlight the lack of understanding of the characteristics and methods of investment trusts (Reference 4).

In addition, in 2013, the Study Group on the Promotion of Financial and Economic Education, for which the JSDA acts as the secretariat, undertook a Comprehensive Survey of Financial and Economic Education in Japan’s Junior High and High Schools surveying teachers of junior high school social studies, technology and home economics, as well as high school civics, home economics, and commerce. The survey highlighted several issues: the teachers themselves felt a lack of expertise, recognized the students’ difficulties in linking the lessons to their actual lives since the lessons focused mainly on understanding terminology and systems (Reference 5). As this survey shows, it is hard to say that people in Japan have adequate financial literacy despite current initiatives to promote literacy (Reference 6). Further expansion of financial and economic education is required.

On this point, the following are considered as initiatives that we should further work on to improve citizens’ financial literacy.

- i) Expand financial and economic education in schools
- ii) Expand the frequency and scale of lectures and seminars on asset management for university students and working adults
- iii) Develop financial and economic education that uses IT, such as e-learning and Web content, etc.

## (2) Future initiatives

The JSDA is supplying educational materials to the field of education, dispatching lecturers, holding seminars, and advertising these activities via various mediums (Web sites, printed media, etc.). The JSDA will continue to expand these activities, and also work on the following initiatives while linking with relevant institutions to promote a better understanding of diversified investments and long-term installment investments, and calling attention to the usefulness of these methods.

### (a) Expand financial and economic education in schools

Having ordered in November 2014 by the Minister of Education, Culture, Sports, Science and Technology, the Central Council for Education at MEXT (Ministry of Education, Culture, Sports, Science and Technology) has been deliberating on the amendment of the government curriculum guidelines.

On the other hand, JSDA compiled a Request for Further Expansion of Financial and Economic Education in Junior High Schools and High Schools at the Study Group on the Promotion of Financial and Economic Education, and submitted it to the Minister in September 2015. This request asks for the improvement of education at junior high schools and high schools to help students understand the significance of securities investment and the necessity for asset building. The JSDA will encourage related stakeholders to support this request.

- (b) Expand projects for holding seminars and sending lecturers for university students and working adults

The JSDA plans to expand its project to organize seminars and send lecturers in an initiative to boost financial literacy by catering to the various needs with the new lecturer dispatch service (financial and securities instructor system) and implementing seminar projects nationwide.

- (c) Enhance Web content and disseminate more information

The JSDA plans to improve the service for disseminating information to school teachers and enhance Web content (video content and apps, etc.) in order to complement the activities mentioned in (b) above and to enhance the financial and securities knowledge of a wide range of people.

#### **IV. Issues and initiatives for improving the business environment**

Changes in the social environment, such as the falling birth rate and aging population, have increased the need for individuals to build assets through their own efforts. In addition, major changes in the market environment have stimulated institutional investors' demand for investments in assets with various risk characteristics, such as investments in bonds with credit risks and alternative assets. To meet these demands, the asset management industry in Japan is required to be more diversified and sophisticated. Currently, the numbers of asset management companies in Japan and their employees are smaller than those in other jurisdictions. In addition, some argue that talented portfolio managers are leaving Japan or that such managers in other jurisdictions are not coming to Japan.

Given this current situation and arguments, it is necessary to increase the number of players in the industry in order to create an environment that encourages the players to work hard with various investment philosophies and meets the needs of investors.

Therefore, the WG discussed issues and means to improve the business environment and to strengthen the asset management industry, aiming at attracting talented human resources for asset management and domestic and foreign asset management companies to the Japanese market.

## 1. Promoting the entry of new asset management companies, etc.

### (1) Current state and issues

To increase the number of players in the asset management industry and promote competition within the industry requires not only the cultivation of domestic asset management companies and human resources, but also attracting foreign asset management companies and talented human resources for asset management to Japan.

Nevertheless, the business characteristics of the asset management industry include intangible assets such as credit and branding that represent the “track record” of a product. So, even if a good product is created, initial distribution is difficult and there is the structural burden, such as the administration and the time it takes to acquire a license, etc. In addition, the results of a survey of foreign asset management companies with an interest in the Japanese market indicate that they see preferential tax systems, business opportunities, a simple entry process, and low administrative costs as important factors when entering the market.

The WG recognized the need to create matching opportunities for institutional investors, such as Japanese public pensions, etc., with foreign asset management companies to provide business opportunities for emerging domestic and foreign asset management companies and highly skilled financial professionals. The WG also noted the need to create a system similar to the Emerging Managers Program, in which foreign pension funds put priority on allocating part of their funds to emerging investment managers, and the need to improve the environment to enable sales of investment trusts through various channels. In addition, there is a view that a more streamlined entry process is required, including a clearer overall picture of the application procedures and the requirements for registration/approval, as well as prompt, one-stop support in English. Further, there was the opinion that outsourcing of middle/back-office operations by asset management companies needs to be promoted and that a standardized platform for these operations is required to reduce administrative costs.

### (2) Future initiatives

JITA, JIAA, and JSDA should work toward further promotion of entry into the Japanese market by domestic and foreign asset management companies, in collaboration with the initiatives of the Financial Services Agency, which is now deliberating on the establishment of a single counter for foreign asset managers and owners,<sup>5</sup> and of the Tokyo Metropolitan Government, which plans to

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<sup>5</sup> The Financial Concierge Service is an English language service that will be launched by the Tokyo Metropolitan Government in collaboration with the Financial Services Agency, to provide foreign finance-related companies with support for their overall businesses. (See Japan Revitalization Strategy 2016, below.)

launch the Financial Concierge Service in 2016 as well as the Tokyo One-Stop Business Establishment Center.

As part of this service, JITA, JIAA, and JSDA will collaborate with the deliberative committee<sup>6</sup> scheduled to be set up by the Tokyo Metropolitan Government, The Financial Services Agency, and private sector operators, to share issues concerning the entry of new asset management companies indicated by the WG, and to work to resolve the issues around promoting the entry of new asset management companies.

In addition, it is appropriate for the JIAA to conduct a study of the Emerging Managers Program, which has been introduced at public pension funds, etc. in the US, while sharing information among related parties to provide business opportunities to domestic and foreign emerging asset management companies and highly skilled finance personnel.

## 2. Rationalizing and optimizing the middle/back-office

### (1) Current situation and issues

Asset management companies have operations that contribute to the medium- to long-term asset building of customers by planning, establishing, investing, and providing solutions for investment methods and products. These capabilities and product performance are their core business and main competitive areas. This core business is supported by other operations such as compliance, risk management, and accounting for investment trusts and investment advisory, to execute and develop effective systems. In Japan, a business environment for outsourcing the middle/back-office operations of asset management companies may not have been fully developed, so the barriers to entry may still remain higher in Japan than in other jurisdictions. In addition, by improving the environment for outsourcing middle/back-office operations, existing asset management companies would be able to focus their management resources on their primary business, which would contribute to improving asset management competencies and competitiveness. In addition, the results of a survey of foreign asset management companies indicated that self-regulatory rules and system manuals are virtually all in the Japanese language, which makes it hard for asset management companies from abroad to assess relevant operational costs.

The WG noted the following reasons for the lack of progress in outsourcing middle/back-office operations for asset management companies in Japan.

- i) For outsourcing middle/back-office operations, there are no clearly stated business regulations concerning operations that can be outsourced, the method of supervising the

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<sup>6</sup> The Japan Revitalization Strategy 2016 indicates that this committee will outline the measures for the immediate future to establish Tokyo as a global financial center within the current year.



contractor, and the terms and conditions for the contractor.

- ii) There is no standardization within the asset management industry for middle/back-office operational flows.
- iii) As a result of ii), outsourcing is comparatively expensive.

## (2) Future initiatives

To rationalize and optimize the middle/back-office operations, it will be necessary to pursue the following initiatives.

- i) Asset management companies should deliberate on possible measures to outsource their operations and issues in doing so, to rationalize and optimize company's own operations.
- ii) Based on companies' deliberations of i) above, JITA should survey external contractors, such as trust banks and investigate the standardization of middle/back-office operations for asset management companies, identifying the obstacles, and implementing improvements.
- iii) JIAA and JITA will take appropriate actions, including collaborating with the deliberative committee scheduled to be set up by the Tokyo Metropolitan Government, Financial Services Agency, and private sector operators, and sharing their findings on those issues mentioned above.

## 3. Clustering the asset management industry in Kabuto-cho

### (1) Current state and issues

The Council for Town Planning to Create Investment<sup>7</sup> has discussed future direction of the redevelopment in the Nihonbashi Kabuto-cho district,<sup>8</sup> and proposed the concept that the district should contribute to stimulating the asset management industry in Japan. Based on this proposition, the project to provide venues that support start-ups and developments of the asset management industry in this district has become part of the projects for making Tokyo a global financial center. The project was also nominated as an urban redevelopment project in the national strategic special zone.

From the perspective of strengthening the asset management industry in Japan, it is considered

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<sup>7</sup> The office of the Council for Town Planning to Create Investment and Growth (chaired by Toyota Motor Corporation senior advisor Hiroshi Okuda) was set up within Heiwa Real Estate Co., Ltd. in December 2014. Its mission is to carry out neutral, effective redevelopment to attract people and produce investments and growth to help revitalize the Kabuto-cho and Kayaba-cho districts in Nihonbashi.

<sup>8</sup> The national government and the Tokyo Metropolitan Government are said to be taking the initiative for strengthening the effective use of the national strategic special zone and enhancing promotion policies under Japan Revitalization Strategy 2016 to make the area close to Eitai Dori, which includes the Kabuto-cho district (Tokyo Financial Street), a showcase for gathering by 2020 highly skilled people from overseas who are working in finance.

significant that clustering asset management companies and personnel in a specific area will bring together information and lead to the creation of an ecosystem.

Tackling the issues mentioned in 1 and 2 of Chapter II, and 1 and 2 of this chapter\* with the national government and the Tokyo Metropolitan Government will likely lead to the clustering of the asset management industry in the district and the formation of an ecosystem.

\* Chapter II. 1. Attracting highly skilled finance personnel and setting up training facilities

2. Securing human resources for asset management

Chapter IV. 1. Promoting the entry of new asset management companies, etc.

2. Rationalizing and optimizing the middle/back-office

## (2) Future initiatives

The Council's project includes the establishment of the following infrastructures in the district.

- i) Facilities for clustering emerging asset management companies, etc.
- ii) Incubation offices to assist with the start-ups and commercialization of asset management businesses and FinTech related to asset management
- iii) Training centers for fostering highly skilled people
- iv) Facilities where investors and corporations can hold discussions and interact
- v) An attractive living environment for talented financial personnel from overseas.

All of the above are the initiatives the WG considers necessary for the clustering of the asset management industry.

Related associations should provide support, as necessary, to consolidate the above initiatives for this project.

## **V. Conclusion**

This report summarizes the results of the WG's deliberations on measures to provide investment products that would tie in with investors' medium- to long-term asset building and to strengthen the international competitiveness of Japan's asset management industry. As noted earlier, reinforcing the asset management industry is considered an important element of making Tokyo into a global financial center, and the importance of reinforcing this industry is growing with the increased requirement for asset building, given Japan's falling birth rate and aging population as well as increased expectations for curbing deflation.

Considering the results of the WG's deliberations, we hope that people in the securities and asset management industries will make efforts and take steady actions to overcome these issues and strengthen

the asset management industry. On the other hand, as the WG discussed, the scale of Japan's asset management industry remains small, compared to the size of Japan's economy, due to multiple factors, and some issues are too far beyond the ordinary course of business for the private sector alone to tackle. Therefore, we strongly recommend that initiatives to strengthen the asset management industry be undertaken under Japan's national strategy because such initiatives are expected to contribute to providing risk money to growing companies and in turn to steady asset building by citizens in Japan.

Some issues in this report could be solved after comparatively short deliberation, but others will require much longer deliberation. We expect that investment trust management firms, asset management companies, sales companies (securities companies, banks, etc.), and related associations will proceed with the projects through definite initiatives under the leadership of the secretariats (JITA, JIAA and JSDA) for the WG, while collaborating, as necessary, with both the national government and the Tokyo Metropolitan Government.

The main opinions and examples of initiatives concerning asset management company fulfilling their fiduciary duties

1. Products and performance

- Several elements all need to work together: improved performance from a medium- to long-term perspective; products developed to suit customers' specific needs; accountability for product investment performance; and enhanced, more easily understood reporting. In particular, for improving performance it is important to have better returns for medium- to long-term investments as well as to train more diverse portfolio managers, given the current negative interest rates.
- For product development, there needs to be specific products that contribute to medium- to long-term asset building, while also considering how to attract the working generation that needs asset building but have limited investment experience to invest in investment trusts.
- It will be very hard for beginners to participate unless a lot of products are created with easily understood, identifiable risk.

2. Governance and transparency

- Asset management companies need to think deeply about ways to objectively explain and convey to customers that they manage their organizations by prioritizing customers' profits. Japanese asset management companies often have strong *keiretsu* corporate group connections with financial institutions and customers assume an asset management company has a *keiretsu* relationship. Therefore, there needs to be an easy-to-understand explanation of how any conflict of interest will be managed.
- Even asset management companies have adopted personnel systems based on Japanese-style employment, and there needs to be a way to explain how this actually benefits customers.

3. Verification through a fiduciary duty declaration, etc.

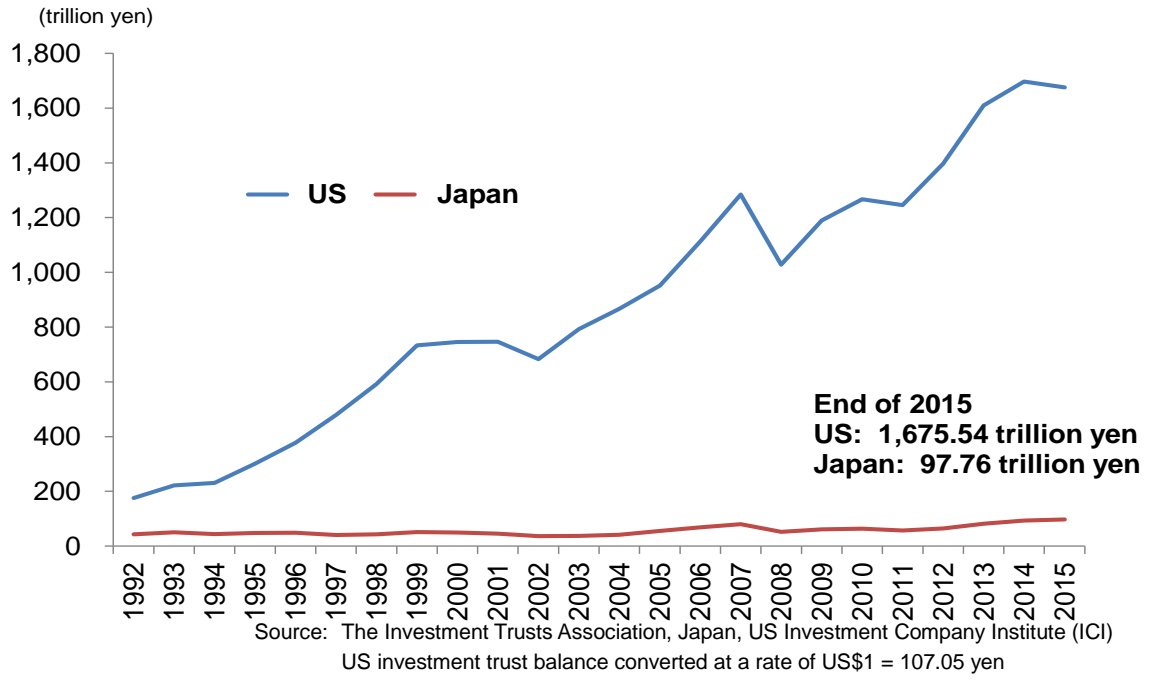
- A recent initiative has made it possible to verify, through a company's own fiduciary duty declaration, whether or not customer profits are being given a high priority and whether or not the organization *objectively* prioritizes customer profits. To be specific, the following four factors need to be verified.

- (1) Management of conflict of interest
- (2) Reasonable remuneration
- (3) Performance evaluation
- (4) Method of governance

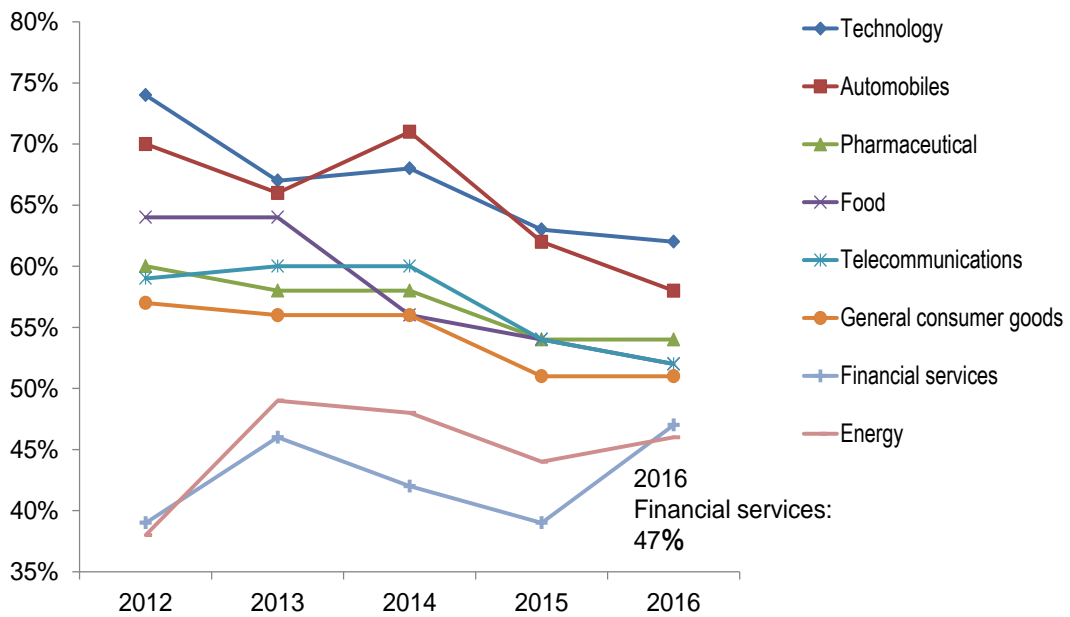
Examples of initiatives at sales companies to promote the sales of products that contribute to medium- to long-term asset building

1. A more in-depth understanding of customer attributes and needs
  - Use a consultative sales style, understand the customer's life plan and asset situation using consulting tools, and then indicate a model portfolio that matches the customer's capacity for risk, etc.
  - Conduct surveys to boost the level of customer satisfaction and provide recognition to the employee with a high level of customer satisfaction.
  
2. Change employee thinking and revise personnel evaluation system
  - Promote improvements in employee awareness through training, etc. to entrench a consultative sales style in the workplace as well as revise the personnel evaluation system by introducing mechanisms that evaluate the long-term performance and rate of change in the assets under management.
  
3. More finely tuned approach to customers
  - Link up with specialists to provide proposals and solutions that consider not only a customer's financial assets, but all of his or her assets.
  - Take a finely tuned approach to customers, such as improving marketing materials and asset management materials as well as by holding seminars on themes that are familiar to customers.
  
4. Select investment trusts that reflect customer needs (based on an objective assessment and not sticking to a *keiretsu* corporate group)
  - Be aware of promoting an open architecture, while confirming the customer's needs and information about asset management companies and products, to make a step-by-step selection using due diligence from research companies as well as discussion and decisions of investment trusts that focus on the needs of customers that assume medium- to long-term investments.

### <Net assets of investment trusts in the US and Japan>

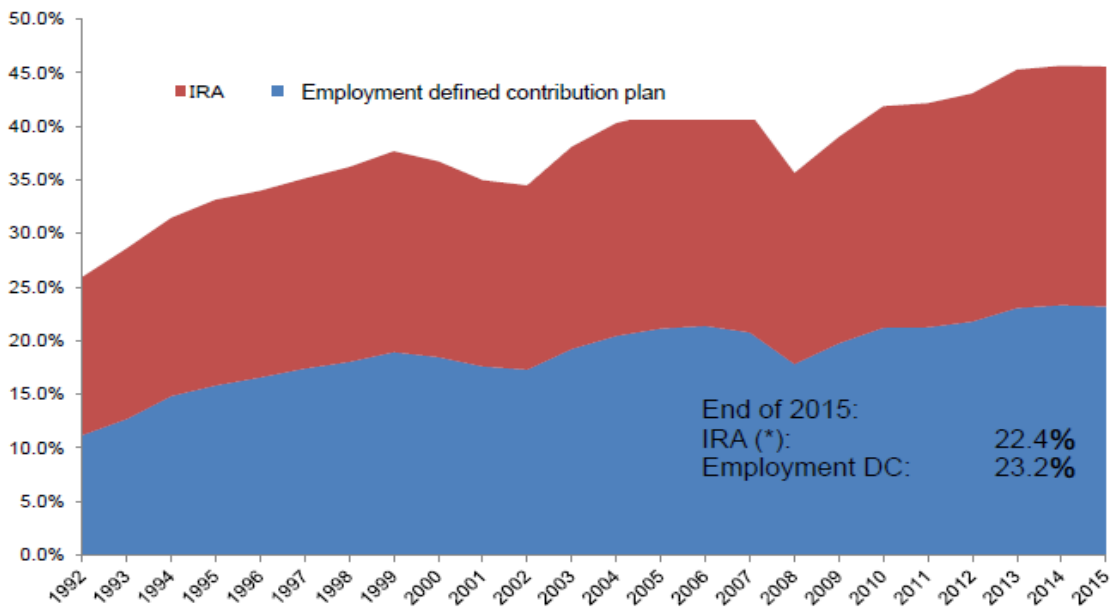


### <Trust in Japanese industry>



Source: 2016 Edelman Trust Barometer

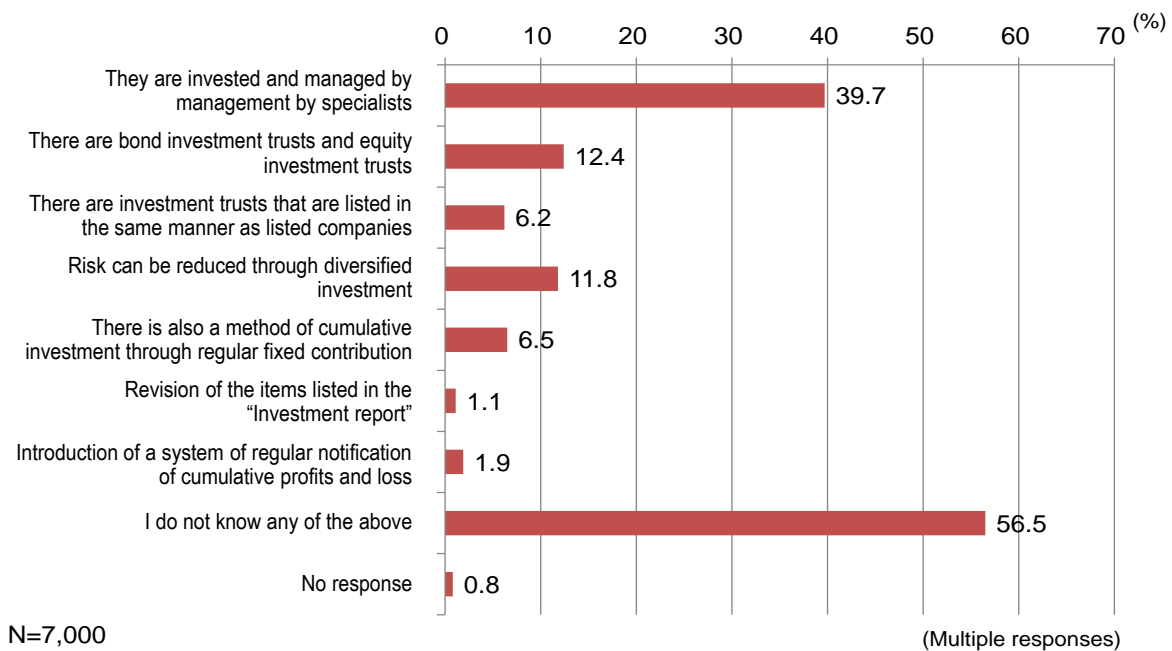
### <Proportion of IRA and employment defined contribution plans in the US investment trust market>



Source: US Investment Company Institute (ICI)

(\*) IRA: Balance of individual retirement accounts that are defined contribution plans for US individuals

### <Degree of recognition of investment trust>



Source: Japan Securities Dealers Association "National Survey on Securities Investment"

## <Results of status survey of financial and economic education in Japan's junior high and high schools>

### <Difficulties encountered when giving lessons>

		Number of surveys	Difficult for students to understand	Lack of expertise among teachers	Not enough lesson time	Changes in the actual economy are too complex	No appropriate teaching material	Low level of interest among students	Little opportunity for teachers to obtain training	School unused to teaching the subject	Difficult to obtain understanding of parents or guardians	Other	No response
Overall		4462	48.9	48.4	44.9	37.8	26.6	25.7	14.0	5.2	0.2	1.0	1.6
By school type	Junior High School	3085	49.9	49.4	44.4	38.9	28.3	22.4	13.6	5.4	0.3	0.9	1.6
	High School	1487	46.3	45.9	46.2	35.0	23.2	33.0	14.9	4.5	0.1	1.1	1.8
By subject responsibility	Junior High School social studies	1732	56.2	42.1	45.2	48.0	23.0	19.1	10.7	5.1	0.3	0.9	1.5
	Junior High School technology & home economics	1371	41.8	58.4	43.5	27.5	35.0	26.6	17.2	6.0	0.3	0.9	1.6
	High School civics	612	52.9	36.3	47.9	40.4	22.1	33.0	11.8	5.6	0.3	0.7	2.0
	High School home economics	738	40.1	54.7	48.5	30.4	24.3	31.8	16.4	3.3	-	1.2	1.6
	High School commerce	140	50.0	40.7	27.1	36.4	22.1	38.6	20.7	6.4	-	2.9	2.1

Source: Japan Securities Dealers Association "Comprehensive Survey of Financial and Economic Education in Japan's Junior High and High Schools"

### <Problems with the study content of financial and economic education>

		No. of surveys	Focus on understanding terminology or systems makes it difficult for students to relate lessons to their actual lives	Students learn the information, but find it difficult to pick up abilities or attitudes	Financial and economic education is limited to specific grades and timeframes, making it impossible to have ongoing studies in the subject	There is little practical knowledge, such as types of interest rates or financial products and the relationship between risk and return	Difficult for students to gain any basic skills needed to be independent, such as managing income and expenses and savings	Do not see any particular problems	Other	No response
Overall		3128	55.0	40.9	31.6	28.3	22.2	5.5	3.1	2.3
By school type	Junior High School	2097	55.6	42.1	32.3	24.7	20.7	6.0	2.7	2.3
	High School	1110	53.7	37.4	30.9	35.0	24.8	4.1	3.8	2.3
By subject responsibility	Junior High School social studies	1266	58.0	39.1	33.4	30.7	20.5	6.7	2.4	1.3
	Junior High School technology & home economics	845	52.3	46.4	30.5	15.9	20.9	4.9	3.2	3.9
	High School civics	428	61.9	34.6	31.8	39.7	21.3	3.7	3.7	1.6
	High School home economics	575	47.3	40.7	31.1	30.4	28.5	3.5	3.7	2.4
	High School commerce	109	55.0	31.2	25.7	42.2	20.2	9.2	4.6	3.7

Source: Japan Securities Dealers Association "Comprehensive Survey of Financial and Economic Education in Japan's Junior High and High Schools"



<Outline of assistance provided by JSDA for financial and economic education (for schools and students)>

	Elementary School	Junior High School	High School	University
Dispatch lecturers	Saturday educational activities FY2015: 81 schools (160 classes, 4,797 students) FY2014: 18 schools (36 classes, 1,021 students)			Financial literacy lectures FY2015: 69 schools (101 sessions) FY2014: 31 schools (40 sessions)
Create and provide teaching materials	Let's Form a Stock Company! A challenge from Mr. X FY2015: 317 schools, 2,985 students FY2014: 292 schools, 26,231 students		Three doors to understanding the economy – Let's take a voyage of economic discovery FY2015: 326 schools, 29,982 students FY2014: 286 schools, 24,844 students	
	Stock market game FY2015: 875 sessions, 39,936 students, FY2014: 830 sessions, 35,480 students		Structure of the stock company system and securities market FY2015: 11,371 print-run FY2014: 10,587 print-run	
Seminar lectures	Summer seminars for teachers (9 locations nationwide) Educational Administrators Seminars (Tokyo) First Hand Experience Finance and Securities Program for Educators (Tokyo, Osaka, Nagoya)	FY2015: 536 teachers* FY2014: 577 teachers* FY2015: 68 teachers* FY2014: 84 teachers* FY2015: 125 FY2014: 143*	Securities and Finance Seminar (Tokyo) FY2015: 168 teachers* FY2014: 173 teachers* Personal finance seminar (Tokyo, Osaka, Nagoya) FY2015: 238 teachers* FY2014: 232 teachers*	
Information magazines, Web	Information magazine for teachers <i>Rainbow news</i> Web site <i>Kinyu-Keizai Nav!</i>	22,000 print-run (3 issues per year) FY2015: 70,063 accesses FY2014: 64,032 accesses		
Support for Study Groups	Assistance for the Study Group on the Promotion of Financial and Economic Education (Naoyuki Yoshino, Chair)			
	Assistance for All-Japan Securities Study Student League			
International Meetings	Participation in international investment education activities			

<Outline of assistance provided by JSDA for financial and economic education (for general public)>

	Young working adults	Adults	Elderly
Provide website content, etc.	Shiro Tsubuyaki's Snakes and Ladders of Life FY2015: 10,312 accesses until close on Jan 29) FY2014: 18,978 accesses	Kai Shain Investment TO THE FUTURE FY2015 (public opening on March 11): 30,015 accesses	* The total number of accesses refers to the aggregate of page views for web pages and views for YouTube videos
	Hamaka-n Investment Management Theater FY2015: 33,849 accesses FY2014: 34,862 accesses	Let's learn with movies! Basic knowledge for understanding securities investment FY2015: 34,613 accesses FY2014: 40,241 accesses	
	Junior NISA finally started! The NISA system that benefits everyone FY2015 (public opening on March 11): 4,318 accesses	Electronic book app FY2015: 12,813 downloads (total) FY2014: 6,840 downloads (total)	
	Want to learn more Q&A, finance and securities terminology, publications (listed below)		
Create and provide printed materials	First Experience of Asset Management! FY2015: 15,000 print-run, FY2014: 13,000 print-run	Introduction to Defined Contribution Pension Plans FY2014: 5,500 print-run	
	Introduction to Investment (Basic guide to securities investment) FY2015: 20,000 print-run, FY2014: 16,000 print-run	Securities Tax System Q&A for Individual Investors FY2015: 124,000 print-run, FY2014: 121,000 print-run	
	Guide to Securities Tax System FY2015: 11,000 print-run, FY2014: 11,000 print-run		
Hold seminars and events	Financial literacy study courses FY2015: 613 attendees (15 locations)* On-demand transmission 12,238 times FY2014: 1,001 attendees (20 locations)* On demand transmission 9,564 times	Investment Day events FY2015: 4,117 attendees (21 locations), FY2014: 5,770 attendees (19 locations)	Financial seminars for senior citizens FY2015: 132 attendees (1 location) FY2014: 338 attendees (2 locations)
	Seminars for young women FY2015: 252 attendees (2 locations) + posting content to My New Women Website FY2014: 733 attendees (3 locations) .. On demand transmission		

## Outline of the Working Group on Asset Management

September 9, 2015

Council for Tokyo Global Financial  
Center Promotional Activities

### 1. Purpose and objective

The Working Group on Asset Management (hereinafter “WG”) is established under the Council for Tokyo Global Financial Center Promotional Activities (hereinafter, the “Council”) for cross industry deliberation by the securities industry and asset management industry of measures to provide investment product that would lead to medium- to long-term asset building for investors while aiming to strengthen the international competitiveness of Japan’s asset management.

### 2. Matters for deliberation

The WG will deliberate on the following matters.

- Creation of an environment to strengthen the asset management industry
- Increasing the investment capacity of asset management companies and train human resources for asset management
- Practical application of fiduciary duties by asset management companies
- Supply investment products for medium- to long-term asset building
- Other

### 3. Composition and administration

- (1) The WG comprises market professionals, high profile executives in market-related institutions, and experts.
- (2) WG members are appointed by the Chair of the Council.
- (3) The manner of WG’s operations are prescribed by the Chair of the Council.

### 4. Report

The status of deliberations within the WG shall be suitably reported to the Council.

### 5. Secretariat

The administrative operations of the WG shall be handled by the Japan Securities Dealers Association, the Investment Trusts Association, Japan and the Japan Investment Advisors Association.

## The Working Group on Asset Management – Member List

June 2016

Chair	Sadakazu Osaki	Head of Research, Nomura Research Institute, Ltd.
Member	Junichi Aizawa	Senior Executive Managing Director, Daiwa Securities Co., Ltd.
Member	Satoshi Arai	Senior Corporate Managing Director, Nomura Securities Co., Ltd.
Member	Yugo Ishida	Representative Director and CEO, Lazard Japan Asset Management K.K.
Member	Kazutoshi Inano	Chairman and CEO, Japan Securities Dealers Association
Member	Yoichiro Iwama	Chairman, Japan Investment Advisers Association
Member	Akiyoshi Oba	President & CEO (Representative Director), Tokio Marine Asset Management Co., Ltd.
Member	Susumu Okano	Senior Executive Managing Director, Daiwa Institute of Research Ltd.
Member	Yuri Okina	Vice Chairman of the Institute, The Japan Research Institute, Limited
Member	Toshihiko Kato	General Manager, Financial Consulting Dept., Sumitomo Mitsui Banking Corporation
Member	Takashi Saruta	Executive Managing Director, Nomura Asset Management Co., Ltd.
Member	Takumi Shibata	Representative Director, President and CEO, Nikko Asset Management Co., Ltd.
Member	Takeshi Shimizu	Partner, PwC Consulting, LLC
Member	Makoto Shirakawa	Chairman, The Investment Trusts Association, Japan
Member	Hiroyuki Tanaka	Executive Vice President, Mitsubishi UFJ Kokusai Asset Management Co., Ltd.
Member	Takuhide Hagino	President, Pictet Asset Management (Japan) Ltd.
Member	Yoshio Hishida	Managing Executive Officer, Sumitomo Mitsui Trust Bank, Ltd.
Member	Philippe Avril	CEO and Representative Director, BNP Paribas Securities (Japan) Limited
Member	Noriyuki Yanagawa	Professor, Graduate School of Economics, University of Tokyo
Member	Kunio Yokoyama	President & CEO, Sumitomo Mitsui Asset Management Co., Ltd.
Member	Takashi Yoshimura	Managing Director, Head of Compliance for Goldman Sachs Japan
Observer	Financial Services Agency	

Observer International Bankers Association of Japan

Observer Tokyo Metropolitan Government

Observer Japan Exchange Group

Observer Heiwa Real Estate, Co., Ltd.

Note 1. Yoshitsugu Yamada, Mizuho Bank, resigned as a member of the WG effective March 31, 2016. Toshihiko Kato, Sumitomo Mitsui Banking Corporation, was appointed as a member effective April 1.

Note 2. Kunio Yokoyama, Sumitomo Mitsui Asset Management, resigned as a member of the WG effective June 27, 2016.

21 Members  
(Honorifics omitted: Japanese alphabetical order)

Past meetings of the Working Group on Asset Management

Meeting Date		Agenda
First meeting	October 22, 2015	<ol style="list-style-type: none"> <li>1. The operations of this Working Group</li> <li>2. Creation of the business environment for asset management               <ol style="list-style-type: none"> <li>(1) Tokyo Financial Street concept utilizing the National Strategy Special Zone Speaker: Hiroyuki Yamamoto, Senior Director, National Strategic Special Zone Team, Tokyo Metropolitan Government</li> <li>(2) Creation of the environment to stimulate asset management business in the Kabuto-cho district Speaker: Tomoharu Nakao, Managing Officer, Heiwa Real Estate Co., Ltd.</li> </ol> </li> <li>3. Research committee on overseas trends in asset management</li> </ol>
Second meeting	December 9, 2015	<ol style="list-style-type: none"> <li>1. Creating the business environment to strengthen the asset management industry               <ul style="list-style-type: none"> <li>○ Case studies of the use of foreign asset management company middle/back office by global custodians and implications for Japan Speaker: Hideyuki Takahashi, Chairman, State Street Trust and Banking Co., Ltd.</li> </ul> </li> <li>2. Improving systems to strengthen the asset management industry               <ul style="list-style-type: none"> <li>○ Case studies of the use of Funds Passport outside Japan Speaker: Eriko Sakata, Partner, Linklaters LLP</li> </ul> </li> </ol>
Third meeting	December 24, 2015	<ol style="list-style-type: none"> <li>1. Realizing a dynamic capital market and stable asset building Speaker: Yasushi Hasegawa, Deputy Director-General of the Planning and Coordination Bureau, Financial Services Agency</li> <li>2. Initiatives to train qualified human resources in finance               <ol style="list-style-type: none"> <li>(1) Singapore's initiatives to train qualified human resources in finance Speaker: Kei Kodachi, Senior Analyst, Nomura Institute of Capital Markets Research</li> <li>(2) Tokyo Metropolitan University Master of Finance program Speaker: Tomonori Uchiyama, Professor, Department of Business Administration, Graduate School of Social Sciences, Tokyo Metropolitan University</li> </ol> </li> </ol>

Fourth meeting	January 26, 2016	<ol style="list-style-type: none"> <li>1. Training Emerging Managers Speaker: Yasunori Nakagami, CEO, Misaki Capital Inc.</li> <li>2. Deliberations to date (Interim Report)</li> </ol>
Fifth meeting	March 4, 2016	<ul style="list-style-type: none"> <li>○ Recent GPIF initiatives and expectations for investment institutions Speaker: Hiromichi Mizuno, Executive Managing Director and CIO, Government Pension Investment Fund</li> </ul>
Sixth meeting	March 30, 2016	<ol style="list-style-type: none"> <li>1. Governance of Japanese investment trusts Speaker: Akihiro Wani, Senior Counsel Yosuke Unami, Associate Ito &amp; Mitomi LPC</li> <li>2. Promotion of a Tokyo Global Financial Center (Funds center) Speaker: Yoshio Hishida, Working Group Member (Managing Executive Officer, Sumitomo Mitsui Trust Bank, Ltd.)</li> </ol>
Seventh meeting	April 14, 2016	<ul style="list-style-type: none"> <li>○ Initiatives to supply investment products for medium- to long-term asset building Speaker: Satoshi Arai, Working Group Member (Senior Corporate Managing Director, Nomura Securities Co., Ltd.)</li> </ul>
Eighth meeting	April 27, 2016	<ol style="list-style-type: none"> <li>1. Results of a needs survey to attract foreign asset management operators Speaker: Keiichi Aritomo, Partner, PricewaterhouseCoopers (US)</li> <li>2. Development of Japanese asset management companies <ul style="list-style-type: none"> <li>○ Including the practice of fiduciary duties Speaker: Akiyoshi Oba, Working Group Member (Chairman, Tokio Marine Asset Management Co., Ltd.)</li> </ul> </li> </ol>
Ninth meeting	June 17, 2016	<ul style="list-style-type: none"> <li>○ Draft report of the Working Group on Asset Management</li> </ul>