

Summary of Statement from the Panel for Vitalizing Financial and Capital Markets

In order to foster growth of Japan's economy and to develop the Tokyo market as a leading international financial center by 2020, it is crucial to take advantage of Japan's strength - such as companies with sophisticated technologies and production infrastructures, and abundant household assets and public pension funds, to strengthen the function of financial intermediaries, and thus to establish a positive cycle which facilitates the smooth supply of funding for growing businesses.

Thus far, Japan has made steady progress in establishing a positive cycle. Investors recognize the value of the progress including formulation of the Corporate Governance Code and Stewardship Code, promotion of the use of various crowd-funding, utilization of funds to support the revitalization of regional economies promoted by Regional Economy Vitalization Corporation of Japan (REVIC), promotion of lending based on customers' business potential, introduction of NISA and Junior NISA, progress in GPIF reforms, and steps taken in financial education.

The following reforms in the financial and capital markets are especially important to ensure that such progress leads to the sustainability of the positive cycle.

First, the movement to improve corporate governance in Japan should not just be superficial. It is necessary to communicate that this movement is truly aiming to achieve growth-oriented corporate governance. Moreover, in addition to standards on exercising shareholder voting rights to improve corporate value in the medium to long term, some companies have already announced basic policies on cross shareholdings that reflect their stance against cross shareholdings unless there is some recognizable significance. Market participants are highly commending companies that are engaging in these actions. Companies should also be made to carry out accountability in this area. For example, once the Board of Directors of a company examines the economic rationale of cross shareholdings, including the degree to which such shareholdings contribute to the improvement of corporate value, the company should provide an explanation to its shareholders and other shareholders on its cross shareholding policies which reflect the outcome of the examination. Additionally, it is advisable for banks to strengthen further

their equity risk management so that their financial intermediary functions could be stably and properly executed even under market turmoil.

Second, the drastic strengthening of Japan's asset management businesses is also crucial. It is important that they establish superior governance and compensation systems, based on highly independent fiduciary duties, in order to attract capital from around the world and diverse and highly-skilled financial professionals. In addition, it is vital that investment funds develop large-scale and long-term funds, and switch to a business model in which they place emphasis on investment performance and outstanding balance. Financial institutions engaging in product origination, sales, investment, and property management should truly serve the needs and profits of customers. It is desirable for customers to actively utilize appraisals by fund appraisal companies and /or ratings to choose their best products and/or services.

Financial institutions in the US and Europe are moving forward with the formation of alliances and collaborations with FinTech companies. In addition, progress is being made in the unbundling of financial operations, mainly in the area of settlements. Accordingly, strategies to gain new customers through analyses of customer needs and behaviors for each business operation are necessary. Given these changes in the business environment, continued examination of the vision for businesses and the legal system is necessary to ensure that financial institutions strive to achieve sophisticated and flexible business operations that enhance the synergy effect and cost reduction, and provide optimal services to customers, as well as efficiently enrich and strengthen their governance and risk management functions.