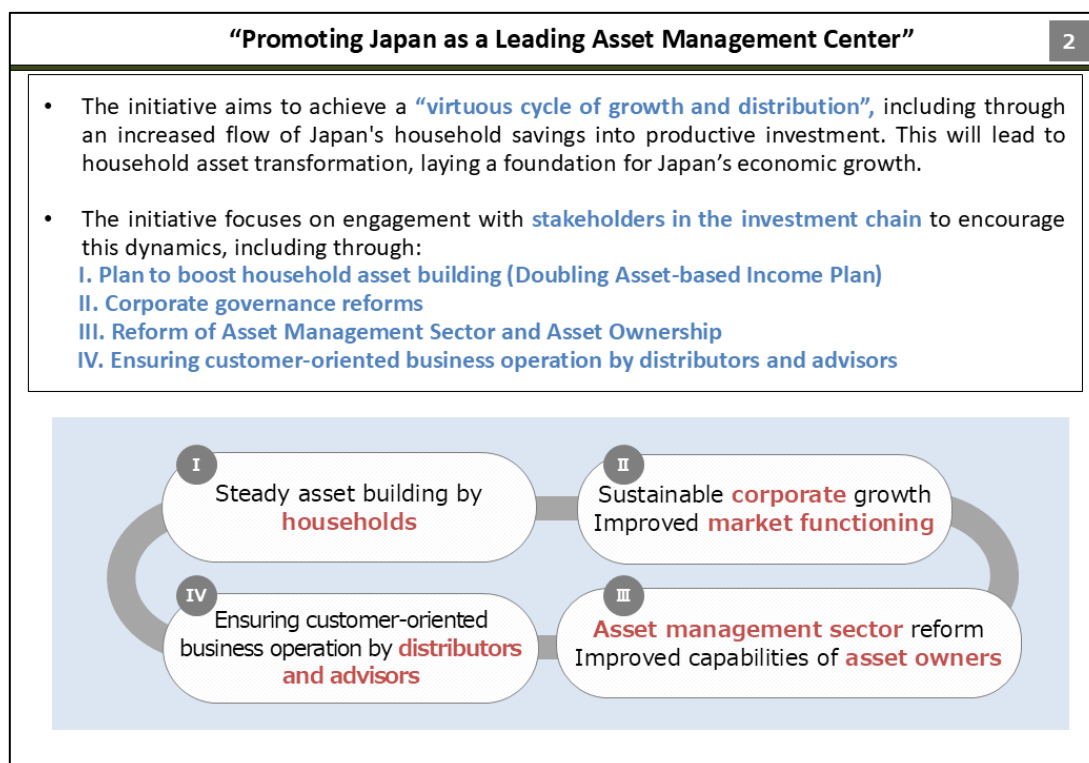


Remarks by MIYOSHI Toshiyuki
Vice Minister for International Affairs, Financial Services Agency
Columbia University Center on Japanese Economy and Business Annual Conference
Tokyo, Japan, July 28, 2025

Good afternoon, everyone, and thank you for the kind introduction. I am the Vice Minister for International Affairs at the FSA. I was appointed just last Tuesday. It is a great honor to join this panel, and I thank the organizers for inviting me.

In this session titled “Capital Market Challenges in Japan, the US, and the World,” I will be discussing the progress of the government’s recent initiative to promote Japan as a leading asset management center in the world. This initiative forms a crucial part of the government’s economic strategy, as Japan is faced with the challenge of sustaining economic growth in the context of its aging and shrinking population. It aims to achieve a virtuous cycle of economic growth and distribution through the increased flow of household savings into productive investments, which is expected to contribute to enhancing companies’ corporate value and economic growth, the fruits of which will be returned to households.



Although many in the audience may already be aware of it, I will first provide an outline of the policy plan, which was put together in December 2023. It has the following three pillars:

- First, the initiative includes measures to promote steady asset building by households. The government developed a plan to double people's asset-based income and expanded the tax exemption scheme for retail investors.
- Second, corporate governance reform has been advanced. Through this, the FSA aims to improve the functioning of Japan's capital markets, which will contribute to enhancing companies' long-term corporate value.
- Third, Japan's asset management industry and patterns of asset ownership are being reformed. Encouraging new entrants from Japan and abroad will stimulate the asset management sector, and asset owners are expected to act in the best interests of their beneficiaries.

In addition, "ensuring customer-oriented business operations" is provided as the fourth pillar in this slide. It initially formed part of the first pillar, but it applies to the third pillar as well.

Let me explain the progress made on the first pillar, promoting asset building by Japanese households.

Progress on our Policy Plan (1): Steady Asset Building by Households		3
✓	Complete Revamp of NISA (January 2024)	
→	Reform of iDeCo : increase in iDeCo contribution limits and age eligibility * The individual-type Defined Contribution pension plan (iDeCo) is a private pension plan based on the Defined Contribution Pension Act.	
✓	Establishment of the Japan Financial Literacy and Education Corporation (J-FLEC) (in full operation from August 2024)	
✓	Introduction of the legal obligation of financial institutions to operate in the best interests of customers (from November 2024)	

This slide shows the efforts by the FSA and other government agencies to encourage investment by households, including a legal provision to strengthen customer-oriented business operations by providers of financial services. Here, I will focus on reforms of NISA and efforts to enhance people's financial literacy.

At the heart of our approach is the Nippon Individual Savings Account (NISA), which is a tax-exempt investment scheme on capital gains and dividend income. In January 2024, the government implemented a major overhaul of the program, tripling the investment limit and making it permanent. This move has provided retail investors with clarity about and confidence in the scheme.

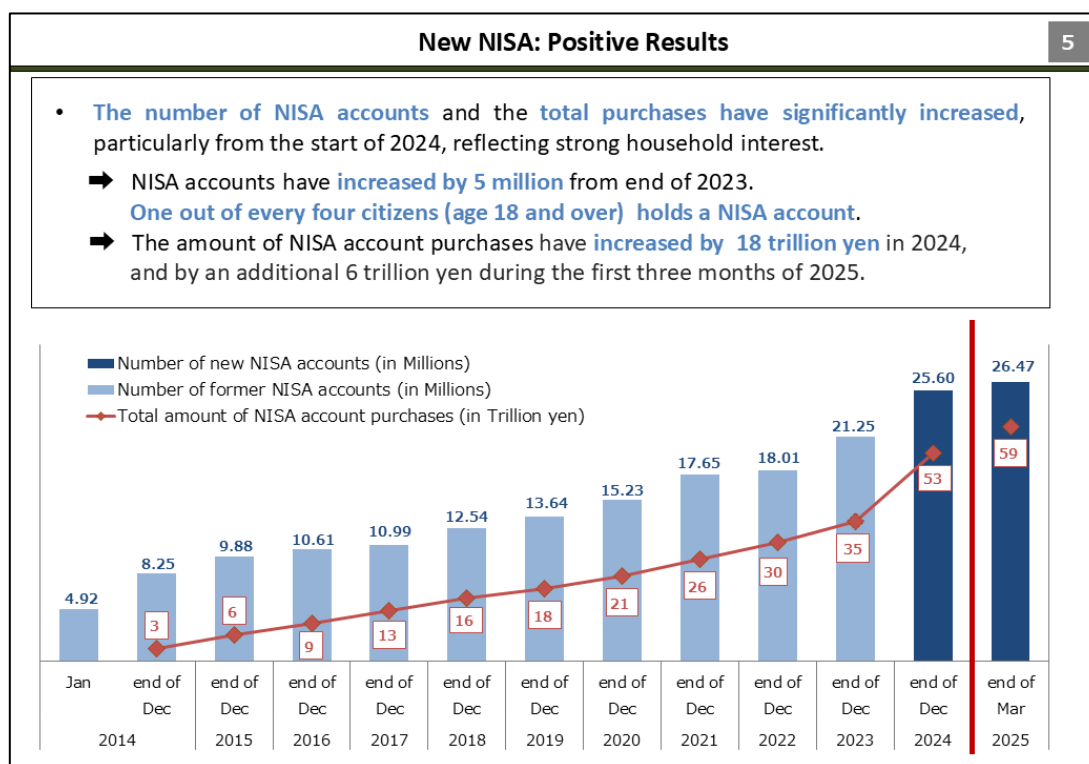
New NISA : A Complete Revamp

4

- NISA has been greatly expanded in terms of the amount of tax exempted both for **long-term, accumulative and diversified investment**, as well as **growth related investment**. It has been **made permanent** which provides **clarity and comfort** for retail investors **to make long-term decisions**.

	<i>Tsumitate</i> (Installment) investment quota	Growth investment quota
Annual investment quota	1.2 million yen	2.4 million yen
Period of tax-exemption	Permanent	
Maximum investment quota (Total quota)	18 million yen	
		12 million yen (part of the total quota)
Products eligible for investment	Investment trusts suited for long-term, installment and diversified investment	Listed stocks, investment trusts

NISA now consists of two segments. The Accumulation (or *Tsumitate*) Segment is designed for novice investors to promote long-term, diversified, and regular investment in simple, low-cost investment trusts. And the Growth (or *Seichou*) Segment is tailored to more experienced investors, and it allows investing in individual stocks and active funds.



Reflecting Japanese households' strong interest in NISA, the number of accounts has increased by five million since the end of 2023. This means that one out of every four citizens (age 18 and over) holds a NISA account. Also, purchases using NISA accounts increased by 18 trillion yen in 2024 and an additional 6 trillion yen during the first three months of this year.

J-FLEC - Promoting Financial Literacy		6												
1. Name														
Japan Financial Literacy and Education Corporation (J-FLEC)														
2. Legal basis, Date of Incorporation														
Established by the Act on Provision of Financial Services and Improvement of User Environment, on April 5, 2024 (Full operation from August 2024)														
3. Purpose														
Promote teaching and guidance (financial education) in order to acquire financial and/or economic knowledge that contributes to the appropriate use of financial services, and to develop abilities to utilize such knowledge														
4. Public-private partnership														
Activities: Provide comprehensive financial education based on public-private partnerships. Financial Resources: <table> <tr> <td>Government:</td><td>JPY 1,007 million</td><td>(JPY 50 million)</td></tr> <tr> <td>Bank of Japan:</td><td>JPY 25 million</td><td>(JPY 25 million)</td></tr> <tr> <td>Japanese Bankers Association:</td><td>JPY 12.5 million</td><td>(JPY 12.5 million)</td></tr> <tr> <td>Japan Securities Dealers Association:</td><td>JPY 12.5 million</td><td>(JPY 12.5 million)</td></tr> </table> *All initial costs are covered by the government. Operating costs are shared with the above institutions, as described in (). Human Resources: Approx. 70 as of end of February 2025 Personnel are seconded from the Japanese government, Bank of Japan, and financial industry associations.			Government:	JPY 1,007 million	(JPY 50 million)	Bank of Japan:	JPY 25 million	(JPY 25 million)	Japanese Bankers Association:	JPY 12.5 million	(JPY 12.5 million)	Japan Securities Dealers Association:	JPY 12.5 million	(JPY 12.5 million)
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Japan Securities Dealers Association:	JPY 12.5 million	(JPY 12.5 million)												
(Source) J-FLEC														

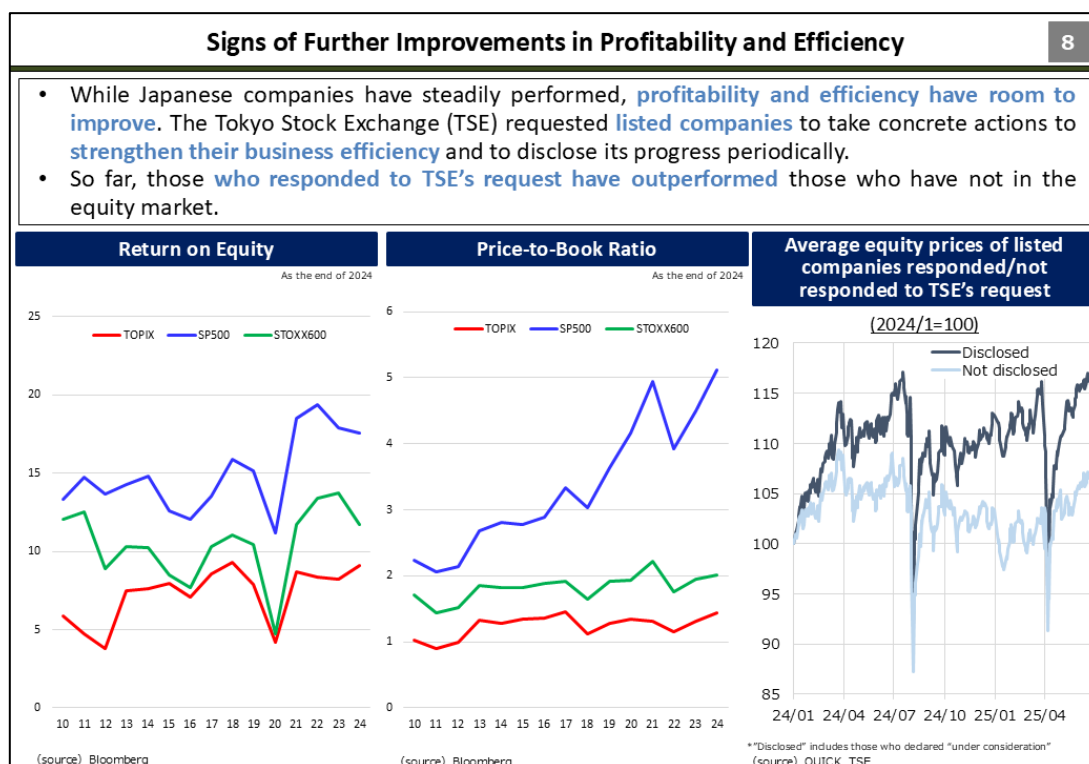
Alongside the reform of NISA, the FSA has advanced efforts for financial literacy, as retail investors must be well-informed if they are to invest in financial products with risks. To this end, Japan Financial Literacy and Education Corporation (J-FLEC) was established in April last year. J-FLEC is a public-private partnership, with both sectors contributing financial and human resources. J-FLEC produces standardized educational materials, and it offers individual and group consultations. It also certifies financial professionals who demonstrate a commitment to acting in their clients' best interests.

Progress on our Policy Plan (2): Corporate Governance Reform		7
✔	Request by TSE to encourage effective management of listed Companies (March 2023)	
✔	Publication of “Cases Where Companies Are Not Aligned With Investors’ Perspectives ” (November 2024)	
→	Follow-up listed companies’ responses to the request by TSE * Proportion of the Prime Market listed companies disclosing their plans or under consideration of disclosing them 49% as of Dec 2023 → 91% as of March 2025	
✔	Revision of Japan’s Stewardship code (June 2025)	
✔	Addition of disclosure items concerning cross-shareholdings (from FY ending March 2025)	
✔	Request by Minister for Financial Services to listed companies to provide the annual securities reports before AGM (March 2025)	
✔	Introduction of the obligation for listed companies to disclose key information in English (from April 2025)	

Let me now move on to the second pillar of the initiative, which is corporate governance reform.

Japan’s drive for corporate governance reform dates back to the development of the Corporate Governance Code in 2015. The code has been adopted by many listed companies since then, leading to the appointment of independent directors and the establishment of nomination and remuneration committees. At the same time, some experts questioned the effect of corporate governance measures on corporate performance, such as a lack of improvement in the use of capital.

In view of this, the FSA, in close collaboration with the Tokyo Stock Exchange, has shifted its focus from ensuring compliance with reform to yielding substantive results. To this end, the FSA has published its action program for reforms for the last three consecutive years, and the TSE has taken measures to encourage listed companies to enhance their performance.



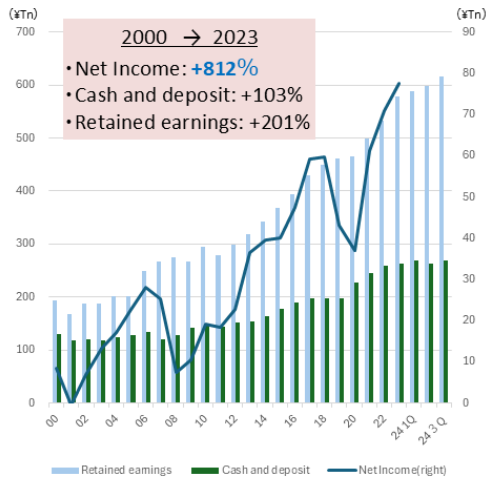
I will leave the presentation of the measures taken by the TSE to Mr. Yamaji. I just wanted to show you that the TSE's efforts have started to bear fruit. These figures show that the listed companies that have responded to the TSE's request for actions to strengthen efficiency have outperformed those that have not. They also show that companies listed on the TSE still have room to improve their profitability, which is good news for global investors looking for opportunities for profits.

Shareholder Returns

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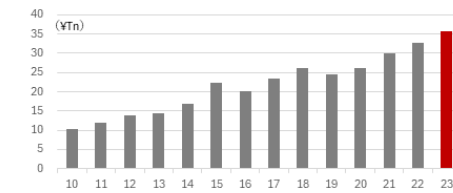
- The corporate governance reforms have borne fruit in the form of **enhanced shareholder returns**.
- Dividends** and **share buybacks** have increased. The growth of **retained earnings** and that of **cash and deposit** have **moderated**.

Retained Earnings/ Cash and Deposit/Net Income

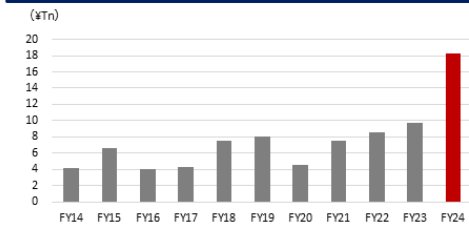


*Companies capitalized at 10 million yen or more
(source) Ministry of Finance

Corporate Dividend



Share Buybacks



*Note 1: Based on figures announced by domestic listed companies with fiscal year ending March 31
(source) QUICK

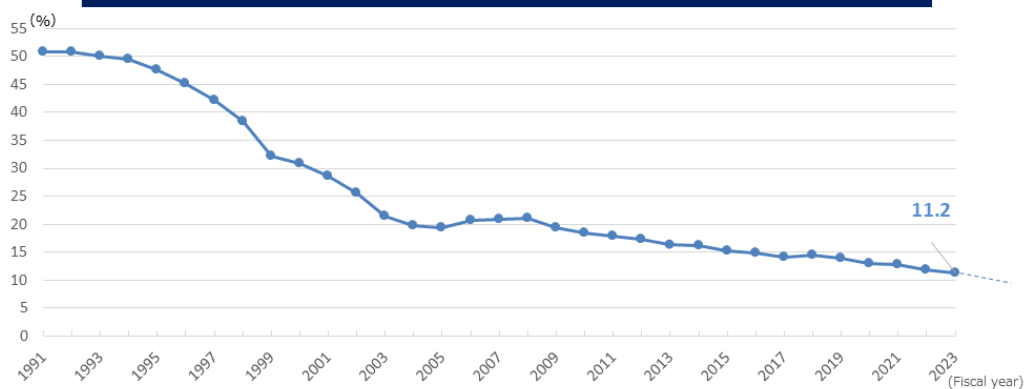
The reforms also appear to have enhanced shareholder returns in the form of increased dividends and share buybacks.

Cross-Shareholdings

10

- Cross-shareholdings have steadily **decreased** due to accelerated **corporate governance reforms**, including through the introduction and enhancement of the Corporate Governance Code.

Cross-shareholdings of listed companies (market capitalization basis)



*Three major non-life insurance companies announced to **reduce their cross-shareholdings to zero** by the end of FY 2029 or FY 2030 (around ¥9 trillion in total) .

Source: Nomura Institute of Capital Markets Research
Note: The ratio of shares (market value) of listed companies held by other listed companies to the total market capitalization of the market.
It only includes shareholdings for purposes other than investment.

Furthermore, cross-shareholdings have steadily decreased due to accelerated corporate governance reforms. In addition to implementing and strengthening the Corporate Governance Code, the FSA has recently amended its rules for financial disclosures to clarify the concept of shareholdings for "pure investment (net investment) purposes." This amendment aims to make it difficult to hold shares for cross-shareholding purposes while classifying them as those for pure investment purposes.

Progress on our Policy Plan (3): Reforming Asset Management Sector & Asset Ownership 11

- ✔ **Statements by major financial groups on efforts to enhance their asset management businesses** (January 2024-)
- ✔ **Publication of Policy Package to Achieve Special Zones for Financial and Asset Management Businesses** (June 2024)
 - ➔ Promotion in cooperation with the 4 target municipalities (Sapporo & Hokkaido, Tokyo, Osaka, Fukuoka)
- ✔ **Introduction of a new program to assist new entrants (Emerging Manager Program)** (January 2024)
- ✔ **Deregulation to allow asset managers to outsource middle- and back- office Operations** (from May 2025)
- ✔ **Development of Asset Owner Principles** (August 2024)
 - ➔ Reform of occupational pension funds, including promotion of more transparent and comparable disclosure

I will now turn to the third pillar of the initiative, which is reform of the asset management sector and asset ownership. The measures include asking major financial groups to set out their plans to strengthen their asset management businesses and creating special zones for these businesses. I will focus on the last three measures listed here.

Challenges for emerging asset managers:

- ✓ securing **seed money** due to lack of the **company's track record**
- ✓ covering **the initial and the running cost** of doing business in Japan

Encourage the entry of emerging asset managers by addressing their challenges through public-private initiatives

- FSA requested financial institutions to actively consider entrusting their assets on **emerging asset managers** and **not exclude them simply because they have only a few years of experience**
- Financial institutions published **actual use cases utilizing** emerging asset managers on the FSA web site (**24 institutions** as of May 2025)
- Associations of asset management industry published **a list of emerging asset managers (entry list)**
- FSA submitted a reform bill to allow asset managers to **outsource middle- and back-office operations so that they can focus on asset management** (Approved by Diet and effective from May 2025)

One of the key measures to stimulate Japan's asset management industry is encouraging new entrants into the market. Several measures have been taken by the public and private sectors to encourage end investors and asset owners to entrust their assets to emerging asset managers. The FSA drafted a deregulation bill to allow asset managers to outsource middle- and back-office operations, which are the main costs when doing the asset management business in Japan. The bill was passed by the National Diet, and it took effect in May this year.

- While the size and type of funds managed may vary, the Government of Japan published a [set of common principles that is useful for asset owners to fulfill their responsibility to manage their assets \(fiduciary duties\)](#) in August 2024.
- The Principles adopt a ["comply or explain" approach](#). The Government published a [list of the asset owners who adopted the Principles](#) in January 2025.
- These asset owners are expected to report their progress to responsible Ministries.

Principle 1. [Determining the purpose of investment, investment target and management policy](#), which should be reviewed as appropriate.

Principle 2. [Securing talents with sufficient knowledge and experiences](#), in order to realize the investment purpose and policies.

Principle 3. Choosing investment methods [for the best interest of beneficiaries](#), with [appropriate risk management](#) and selection of the optimal investment trustee [while managing conflicts of interest](#).

Principle 4. [Providing information of asset under management](#) and engaging in [dialogue with stakeholders](#), in order [to fulfill accountability to stakeholders](#).

Principle 5. Encouraging [the sustainable growth of investee companies by conducting stewardship activities](#), in order to [achieve the investment targets for beneficiaries](#).

The Asset Owner Principles, which are a set of common principles that help asset owners fulfil their responsibility to manage their assets, were published by the government in August 2024. The Principles set out the following things that asset owners are expected to do: define the purpose, policy, and targets of investment, secure competent human resources, address risks and conflicts of interest, fulfil accountability to stakeholders, and conduct stewardship activities. As of the end of June this year, 219 asset owners have adopted the Principles.

In conclusion, the initiative to promote Japan as a leading asset management center has made good progress. The FSA will stay the course to implement the policy plan with the aim of improving the functioning of Japan's capital markets, helping asset building by households, increasing the corporate value of companies, and thereby contributing to the sustained growth of Japan's economy.

Thank you for your attention.