

Lead Intervention by Miyoshi Toshiyuki
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Introduction

Good afternoon, everyone. First of all, I would like to thank the ICI (Investment Company Institute) for organizing the session today and First Eagle Investments for hosting this event. It is a pleasure to speak in front of such a distinguished group of participants. I look forward to a frank exchange of views with you.

This roundtable happens to take place exactly one year after the head of the FSA at that time, Ito Hideki, delivered a speech at another roundtable the ICI kindly organized in this city. I am happy to report on our progress since then and discuss the next steps.

Today, I will be discussing the government's initiative to promote Japan as a leading asset management center. As you probably know, this initiative started in 2023 and forms a crucial part of the government's growth strategy. It is aimed at contributing to economic growth through the increased flow of household savings into productive investments. This would lead to companies' enhanced corporate value, and the fruit of the investment would then return to households for further investment and consumption.

To this end, the FSA has been implementing comprehensive reforms across the investment chain—households, corporates, financial services providers, asset managers, and asset owners, and this initiative has yielded tangible results.

Japan is now at a turning point. It is moving away from the long-standing deflationary, cost-cutting economy toward a growth-oriented one, supported by increased investment and higher productivity.

Against this backdrop, the government led by Prime Minister Takaichi is committed to developing a growth strategy package aimed at realizing a

robust economy. As part of this, the government plans to expand the current initiative and develop a new comprehensive financial services strategy by the summer.

Let me introduce to you the recent progress made and some next steps currently under consideration.

Households

One of the next steps is a further enhancement of NISA.

NISA is a tax-exemption scheme for retail investors on capital gains and dividend income in Japan. The government implemented a fundamental revision of NISA in January 2024; it is now a permanent scheme, and the annual investment limit has also been expanded. As a result, the number of NISA accounts has increased by 33 percent in two years to about 28 million; this means that one in four Japanese adults now holds a NISA account. Participation is growing across all generations, particularly among younger people. As such, our long-standing aim of channeling household savings into productive investments is steadily gaining momentum.

It is important to keep this momentum and enable people of all generations—including the young and the elderly—to accumulate their assets in line with their individual life plans. Accordingly, the tax amendment plan for the fiscal year starting this April includes a proposal to remove the age restrictions for NISA's installment-type scheme. This will take effect in next January, allowing households to have NISA accounts for their children under the age of 18. Also under this tax amendment plan, investment trusts focused primarily on bonds has been included in NISA-eligible investment trusts since this April, in addition to those focused primarily on equities. This amendment is expected to incentivize those with relatively low risk tolerance to take their first step to start investment.

At present, Japan's household financial assets exceed 2,300 trillion yen (approximately USD 16 trillion). While the share of risk assets has increased and reached a record high, cash and deposits still account for about half of total assets. This proportion is higher than that of the US (10 percent) or the UK (35 percent); while this is partly a result of a deflationary economy, it also indicates substantial room for growth in

asset management in Japan. An increase in the proportion of equities in a growing economy would also result in greater returns on household financial assets.

Corporates

The second area for further steps is corporate governance reform.

Since its introduction in 2015, the FSA has promoted strengthening of corporate governance through revisions to the Corporate Governance Code, with a view to improving Japanese companies' corporate value in the medium- to long term. Thanks at least in part to these efforts, corporate mindset appears to be shifting.

In March 2023, the Tokyo Stock Exchange (TSE) requested that its listed companies develop and disclose business management plans focused on its cost of capital and stock price. In response, 92 percent of companies listed on the TSE's Prime Market disclosed their plans to improve the key indicators such as PBR (price-to-book ratio).

The chart in the lower right compares the share price trends between companies that disclosed their plans toward management conscious of capital cost efficiency following the TSE request and those that did not. Companies that made the disclosures tend to show higher share prices than those that have not disclosed or are still considering disclosure. Furthermore, the TSE has published good practices of disclosures that have been highly valued by investors. The performance of these featured companies—shown by the red line—is even stronger.

With the aim of further advancing substantive reform of corporate governance, the FSA and TSE plan to revise the Corporate Governance Code for the first time in five years. To this end, we launched a public consultation on the revisions to the Code last Friday (April 10). The four main objectives of the revision are the following:

- First, we are aiming to streamline the Code and reinforce its principles-based nature to urge companies to focus on core efforts to enhance their corporate value in the medium- to long term.
- Second, we are aiming to encourage companies to examine continuously whether their allocation of resources is appropriate,

taking into account the existence of various opportunities for investment.

- In part reflecting a deflationary economy, Japanese companies' cash and deposit holdings were overall on an increasing trend from the early 2000s until after the COVID-19 shock, while the ratios of capital expenditure and R&D investment to sales have remained relatively low.
 - As Japan's economy is overcoming deflation, it is essential that companies examine the wide range of opportunities for investment, including in R&D, human capital, and capital equipment.
 - From the perspective of further promoting value creation, the draft revisions to the Code are aimed at encouraging companies to look at various investment opportunities and examine whether their allocation of resources is appropriate.
- Third, we are aiming to further accelerate disclosure of the annual securities report before the company's annual general meeting to better serve constructive dialogue between companies and investors.
 - Fourth, we are aiming to promote stronger board secretariat functions to help the Board of Directors operate more effectively. As we all know, a board secretariat plays a critical role in assisting board chairs and independent directors.

I think that now is an opportune time for further corporate governance reform, as Japan is finally overcoming deflation. The draft text in both Japanese and English is available on the FSA website. Input from overseas investors is highly valuable. We would appreciate receiving your comments by Friday, May 15.

Asset Management Services

The third area is the sophistication of asset management services, which has a crucial role to play in channeling household financial assets into growth investments.

Assets under management in Japan amount to approximately 1,000 trillion yen (USD 6.7 trillion), having tripled over the past decade and

continuing to grow. However, the number of asset management firms operating in Japan remains limited compared with overseas markets.

To address this, the FSA has put in place a Japanese version of EMP, which stands for Emerging Managers Promotion Program. We are working to promote new entry into the investment management business through easing regulations and encouraging financial institutions to use emerging managers.

One such regulatory easing involves relaxing the requirements when emerging managers outsource so-called middle- and back-office functions, such as compliance and fund accounting. This facilitates the entry of skilled asset managers and allows them to focus on asset management itself.

Since the amendment of relevant laws and regulations took effect in May last year, four companies have been registered as service providers eligible to undertake middle- and back-office functions. We understand that more firms are currently preparing for registration.

Another regulatory easing allows investment managers to fully outsource investment execution and solely focus their work on planning business. This revision also came into effect in May last year and has enabled emerging managers to make use of so-called fund management companies. By entrusting the launch and operational execution of the funds to specialized firms, asset managers can focus themselves on producing investment concepts and investment universe design. We hope that such a business model will become a viable option in Japan.

Furthermore, the FSA has a one-stop support office to encourage entry of foreign financial institutions into Japan's financial markets. The office handles all the regulatory processes from pre-application consultation, registration, to supervision in the English language.

We hope that the entry of asset managers with various investment approaches will result in raising the quality of asset management services and industry in Japan.

Asset Owners

The fourth area is asset owner reform.

As entities managing funds such as pensions, insurance, and endowments, it is essential that asset owners have in place robust governance and risk management frameworks to pursue the best interests of beneficiaries.

To this end, the government developed the “Asset Owner Principles” in August 2024, setting out the common principles that help asset owners fulfill their responsibilities to their beneficiaries. As of the end of February, 348 entities have declared that they have adopted these Principles.

One of the aims of the Asset Owner Principles is to promote competition among asset managers as investment trustees. The Principles state that “it is important not to exclude emerging managers simply because they have only a few years of experience.” This is because, for the interest of beneficiaries, it is considered desirable that an asset owner select an investment trustee based not only on the brand, name recognition, and size of the assets under its management, but also on the abilities and experience of the chief investment officer, including his or her experience at previous companies.

Major public asset owners in Japan, such as the GPIF (Government Pension Investment Fund), go even further. They have published guidelines to diversify investable assets, as well as hire and train professional talent. Moreover, some public asset owners have started to engage in alternative investments, including in private equity. We expect public asset owners to enhance their investment capabilities so that they can diversify their investable assets, with a view to better serving the best interests of the beneficiaries.

Strengthening External Communications

In advancing the initiative, we are also strengthening dialogue with stakeholders in Japan and abroad.

For example, we launched “Japan Weeks” in 2023 as an annual event to strengthen engagement with global investors and promote the attractiveness of Japan’s financial markets. The core week of “Japan Weeks 2026” is scheduled for October 26-30 and the event is expected to serve as an important opportunity to communicate Japan’s vision to become a leading asset management center.

We also launched the Japan Asset Management Forum in October 2024 as a platform for dialogue on increasing flow of household savings into productive investment and reforming the asset management industry in Japan. We have received valuable proposals from a wide range of stakeholders, particularly asset management firms in Japan and abroad.

Conclusion

Let me conclude.

To date, I believe that our initiative to promote Japan as a leading asset management center have received positive feedback from market participants both at home and abroad.

Going forward, we will continue our work to strengthen corporate governance and the asset management industry, so that financial assets can be channeled into productive investments, and households can reap the benefits from their investments. I would appreciate your continued interest in this initiative and cooperation.

Thank you.