

FSA's efforts to realize a strong economy
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Introduction

Good afternoon, everyone. At the outset, I would like to thank Morgan Stanley MUFG Securities for inviting me to this Japan Summit. It is a pleasure to have the opportunity to speak in front of such a distinguished audience that includes many leading investors from both Japan and overseas.

This is the third time that the Vice Minister for International Affairs of the Financial Services Agency (FSA) has spoken at this Summit, since my predecessor, Ariizumi Shigeru, spoke at this event last year and the year before. We are grateful to the organizers for their continued interest in our work on a variety of financial sector issues.

Today, I would like to update you on the FSA's efforts to realize a strong economy through strengthening the functioning of Japan's financial markets. I will begin by briefly touching upon a new financial services strategy currently under consideration by the Government of Japan. I will then introduce to you the proposed revision of Japan's Corporate Governance Code, which was published last month for public consultation. I will also mention a few deregulatory measures recently implemented to promote the entry of new asset managers, and tax measures that have been introduced to expand the tax exemption schemes for retail investors further. The FSA has also launched an initiative to support experimental projects that may contribute to promoting innovation in the payment and settlement systems. And we highly value close dialogue with stakeholders and will continue active communications with them.

Financial Services Strategy

First, let me touch briefly upon the economic policy agenda of the current

government.

The government led by Prime Minister Takaichi is currently advancing discussions toward the development of a comprehensive growth strategy for Japan's economy. One of its main focuses is on increasing growth and strategic investment, and finance is expected to play an indispensable role in accelerating this strategy.

In this context, the government intends to build on its ongoing initiative to Promote Japan as an Asset Management Center and develop a new financial services strategy by this summer. This strategy would be aimed at unlocking the potential of Japan's economy and enhance the prosperity of the Japanese people by creating a virtuous cycle of capital.

The new financial services strategy would be structured around four key pillars:

- First, it would aim to strengthen the functioning of financial institutions and markets to support growth investment in strategic sectors—including the 17 priority fields—as well as business restructuring and transformation.
- Second, it would advance the corporate governance reform further to promote growth-oriented investment by companies, with a view to enhancing their corporate value in the medium to long term.
- Third, measures would be introduced to maximize the benefits from economic growth to stakeholders through sophisticated asset management services, enhanced capabilities of asset owners, and support for steady asset building by households.
- And fourth, the strategy would be aimed at upgrading the market infrastructure that supports the financial system.

I believe that you are all looking forward to listening to Minister Katayama's speech tomorrow, which will provide an overview of the government's growth and financial services strategies. I will therefore focus my presentation today on some of the FSA's measures that would be incorporated into the government's financial services strategy.

Corporate Governance Reform

I would like to start with the corporate governance reform and the revision of the Corporate Governance Code.

Since the Code's 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, the 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 their cost of capital and stock price. In response, 92 percent of companies listed on the TSE's Prime Market have disclosed their plans to improve 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 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 disclosure practices that have been highly valued by investors. The performance of these featured companies—shown by the red line—is even stronger.

At the same time, cash and deposits held by Japanese companies increased consistently for a long time until recently, while the ratios of capital expenditure and R&D investment to sales have remained relatively low. Although this is in part a reflection of a deflationary economy, it may also mean that there is room for improving resource allocation to achieve sustainable growth.

As Japan is finally overcoming deflation, companies' initiatives to enhance their capabilities for value creation should be supported strongly. It is in this context that the FSA and TSE decided to revise the Corporate Governance Code for the first time in five years.

The main objective of the proposed revision is to strengthen what we call "growth-oriented governance." Through market discipline and constructive dialogue between companies and shareholders or investors, Japan's corporate governance reform aims to provide company boards and executives with strong incentives to fulfill their fiduciary duty to their shareholders, and to promote fair, transparent, timely and decisive decision-making. Such governance would lead to companies' sustainable

growth and an increase in their corporate value over the medium to long term.

The proposed revision to the Code aims to encourage companies to prioritize initiatives that would contribute to longer-term value creation in a substantive manner. To this end, the structure of the entire Code would be reclassified. Specifically:

- The General Principles and Principles would be subject to the comply-or-explain approach and capture the essence of effective corporate governance;
- In the revised Code, Interpretive Guidance sections would be newly created. While they would not be subject to the comply-or-explain approach, they would contain good practices that would support effective implementation of the Principles as well as the General Principles.

In the current Code, there are the Notes sections under the General Principles, which are not subject to the comply-or-explain approach but serve to support companies in implementing the General Principles. In the revised Code, their role would be clarified by renaming them as Interpretive Guidance and expanding their content.

Let me be clear here that the intention of this reclassification is not to loosen the Code. On the contrary, we aim to raise expectations even higher. At first glance, the reduction in the number of provisions subject to the comply-or-explain approach might give the impression that the Code would be weakened. This is not the case. The proposed reclassification is rather aimed at encouraging companies to continuously assess what their ideal governance structure should be, according to their specific circumstances; to implement governance effectively; and to explain their initiatives to investors carefully. I would emphasize that companies would be expected to enhance their corporate governance in a substantive manner, beyond mere compliance with the text of the Code. In other words, they would be expected to engage in governance at a higher level.

Let me highlight some key pillars of the proposed revisions to the Code.

First, the revised Code would stress the importance of the roles and responsibilities of company boards for the appropriate allocation of

management resources, including for growth investment. Specifically:

- The board should set a path for growth towards corporate goals.
- The board should also clearly explain to investors how resources are allocated, including growth investments.
- The board should persistently review whether the allocation of the company's resources is appropriate.

The second pillar relates to enhancing the effectiveness of the board. The board plays a crucial role in value creation by setting the broad direction of corporate strategy, establishing an environment that supports appropriate risk-taking by management, and conducting effective oversight of management from an independent and objective standpoint.

- The ideal state of the board changes depending on the company's path for growth and the surrounding situation. What is most important is that each company persistently considers the ideal state of the board, that is, what its board should look like and discuss, and then appoints directors with appropriate expertise.
- The revised Code would also emphasize the importance of ensuring the quality of independent directors, especially regarding their effective monitoring functions. In the 2021 revision of the Code, companies listed on the TSE's Prime Market were asked to fill at least one third of the Board with independent directors. Since then, the number of independent directors has increased significantly. However, it is equally—if not more—important to appoint individuals who possess the appropriate expertise and independence. The proposed revision places particular emphasis on this point.
- Furthermore, the draft revised Code highlights the importance of strengthening board secretariat functions such as corporate secretary, which plays a key role in supporting directors, including the board chair and independent directors.

The third pillar is the disclosure of the annual securities report (*Yuho*) before annual general shareholders' meetings (AGMs).

Japanese listed companies face a unique situation in which they are required to prepare both the Business Report under the Companies Act and the Annual Securities Report (*Yuho*) under the Financial Instruments and Exchange Act. Since the *Yuho* contains useful and reliable information for investors' decision-making, it is appropriate that the report

be disclosed prior to the AGM. Following a request from the Minister of State for Financial Services in March 2025, 57.7 percent of companies with fiscal years ending in March 2025 disclosed their *Yuhō* before their AGMs, a significant increase from 1.8 percent in the previous year. However, most companies still disclose them only a few days before the meeting.

In the proposed revision to the Code, disclosing *Yuhō* before the AGM has been clarified as an important measure to allow the effective exercise of shareholder rights. The Interpretive Guidance further notes that it is best for the report to be disclosed at least three weeks before the AGM and, to this end, companies could consider moving back the date for the AGM. In addition, the FSA is cooperating with the Ministry of Justice in advancing discussions on integrating the Business Report and *Yuhō*. Through these efforts, we aim to make it easier for more companies to disclose their *Yuhō* earlier and to promote disclosure before the AGM.

These are the main points of the proposed revision to the Code. The FSA will not be satisfied merely with completing this revision; it will closely follow up on the implementation by companies and dialogue between companies and investors. In doing so, feedback from investors, both domestic and overseas, at opportunities like this will be extremely valuable.

Advancing Asset Management Services

Let me now turn to measures to promote the sophistication of asset management services, which have 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, five 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 business planning. 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 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.

NISA Expansion

Next, I would like to explain 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 amendments for the fiscal year starting this April include a provision to remove the age restrictions for NISA's installment-type scheme. This will take effect next January, allowing households to have NISA accounts for their children under the age of 18. Also under these tax amendments, investment trusts focused primarily on bonds have 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 toward starting to invest.

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.

Payment Innovation Project

Let me now turn to the Payment Innovation Project, or PIP, which the FSA launched last year.

Blockchain technology has the potential to transform the way business is conducted, by integrating logistics, commercial transactions, and payments. As the use of this technology is expected to enhance the overall efficiency of the economy, it is essential to ensure that legal, institutional, and regulatory frameworks are capable of accommodating such transformation.

In this context, facilitating broad adoption of blockchain-based payment solutions, such as stablecoins and tokenized deposits, is becoming increasingly important. This is the motivation for launching the PIP.

Through this initiative, the FSA supports proof-of-concept projects in the payment area undertaken by financial institutions and Fintech firms, with a view to advancing payment systems through the use of blockchain technology. PIP is aimed at addressing the hesitation and concerns that firms tend to have when engaging in unprecedented proof-of-concept initiatives.

Under the PIP framework, a dedicated team is formed within the FSA for each individual project. In coordination with relevant ministries and agencies as necessary, these teams examine key issues such as compliance risks, supervisory considerations, and regulatory interpretation that may arise when services are provided to end users. Through this process, we aim to provide continuous support so that firms can readily undertake innovative challenges.

One of the projects with PIP support relates to on-chain securities settlement. In February this year, the FSA decided to support a proof-of-concept initiative aimed at realizing on-chain transactions of book-entry securities, including government bonds, corporate bonds, investment trusts, and shares. Under this project, the firms are experimenting with the simultaneous execution of the transfer of ownership rights and payment—that is, delivery versus payment (DvP)—by utilizing blockchain technology in securities transactions. In addition, the automation of dividend, principal, and interest payments on blockchain is being explored. If successfully implemented, this scheme is expected to reduce settlement risk through instantaneous transfer and alleviate operational burdens. In the longer term, it could enable 24/7 securities trading, making it easier for a broad range of investors—including from overseas—to invest in Japan.

Under PIP, the FSA is also supporting an experimental project by Japan's three megabanks for a joint issuance of stablecoins, and another project for developing a mechanism for transferring tokenized deposits across multiple financial institutions.

External Communications

In advancing the initiative to promote Japan's capital markets, the FSA is also strengthening dialogue with stakeholders in Japan and abroad.

For example, the FSA has hosted "Japan Weeks" since 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 for becoming a leading asset management center.

In addition to "Japan Weeks," an important initiative being led by the private sector in collaboration with the government is the Japan Asset Management Forum. It was launched in October 2024 as a platform for dialogue on increasing the flow of household savings into productive investment and reforming the asset management industry in Japan. Numerous valuable proposals have been put forward by a wide range of stakeholders, particularly asset management firms in Japan and abroad. The Forum says that applications for new membership from asset management companies and other stakeholders are highly welcome.

Conclusion

Let me conclude.

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

Going forward, the FSA will continue its efforts to realize a strong Japanese economy under the government's upcoming new financial services strategy, including through the corporate governance reform, the sophistication of asset management services, measures to support steady asset building by households, and enhancement of financial market infrastructure. I would appreciate your continued interest in the FSA's work and cooperation.

Thank you.