

Basic concepts of the Plan for Strengthening the Competitiveness of Japan's Financial and Capital Markets

The need to strengthen competitiveness

○ In order to achieve sustainable growth of Japan's economy as the population ages, it is essential that its financial and capital markets:

- provide good investment opportunities to financial assets held by the household sector, and
- supply domestic and foreign firms with adequate amount of capital for growth.

○ Given the intensifying global competition among markets, strengthening the competitiveness of Japan's markets and raising their attractiveness is urgently needed so that they can fulfill their role in meeting the demands of domestic and foreign users.

○ As an industry that can generate high value added, a vibrant financial services industry is also expected to contribute to the growth of Japan's broader economy.

Four pillars of the Plan

I. Bolstering the confidence and vigor of the markets

→ Putting in place a market infrastructure that enhances diversity in financial services and raises customer benefits, while ensuring market fairness and transparency

II. Business environment that vitalises the financial services industry and promotes competition

→ Putting in place a competitive environment that meets the needs of the times and enables provision of diverse and high-quality services

III. Improving the regulatory environment (better regulation)

→ Enhancing effectiveness, efficiency and transparency of supervisory response

IV. Improving the broader environment surrounding the markets

→ Nurturing internationally competitive experts; Improving the urban infrastructure

Outline of the Plan

I . Bolstering the confidence and vigor of the markets

<Promoting provision of diverse opportunities for investment and funding>

1. Diversification of products tradable at exchanges

-Diversification of exchange-traded funds (ETF)

【Bill to be introduced to Diet promptly ; secondary regulation to be amended in 1st half of 2008】

Making it possible to invest in a wide range of products, including financial and commodity derivatives

-Alliance between financial and commodities exchanges

【To be implemented promptly after consideration given in 2008】

Enabling exchanges groups to offer a full line of products from equities, bonds, financial derivative to commodity derivatives

2. Fostering vibrant transactions among professionals

【Bill to be introduced to Diet promptly】

3. Taxation scheme for stocks and investment trusts that facilitates the shift from savings to investment

<Ensuring market fairness & transparency>

Making civil money penalties more effective against market misconduct

Strengthening of market surveillance at Securities and Exchange Surveillance Commission and other relevant bodies

II . Business environment that vitalizes the financial services industry and promotes competition

Revamp of the firewall regulation among banking, securities, and insurance businesses

【Bill to be introduced to Diet promptly】

- Lifting the ban on interlocking officers and employees
- Relaxing the restrictions on the sharing of undisclosed corporate customer information between banking and securities businesses

Broadening the scope of businesses permitted to banking and insurance groups

【Bill to be introduced to Diet promptly】

- Commodities dealing, Islamic finance, emission trading, equity holding for the purpose of corporate restructuring, etc

Encouraging financial firms to manage conflicts of interest effectively

【Bill to be introduced to Diet promptly】

Encouraging foreign fund managers to participate in Japanese markets by removing taxation risk in carrying out business through independent agents in Japan (PE risk)

III . Improving the regulatory environment (better regulation)

-Intensive dialogue and sharing of principles with the industry

-Enhanced transparency and predictability of regulation and supervision

-Strengthened co-operation with foreign authorities

-Close monitoring of market developments and effective supervisory response

-Improving the quality of FSA staff

IV . Improving the broader environment surrounding the markets

Developing and accumulating internationally competitive human resources specializing in finance, law, and accounting

-Advanced and practical financial education

-Improving the modalities of CPA examination [by 2010]

-Nurturing financial experts
[consideration of institutional design will start in 2008]

Enhancing urban functions as an international financial center