Japan Revitalization Strategy (Revised 2014)
(Cabinet Decision on June 24, 2014)

– Major measures related to Financial and Capital Markets –
Strategic financing for growth-oriented businesses is the key to successful implementation of initiatives for overcoming deflation and achieving sustainable economic growth under Abenomics.

Overview (1)

- Exit from the deflationary stagnation (2% target for inflation)
- Promote stable asset formation and sufficient return
- Positive cycle
- Financing for growing areas
Approach toward Financial Institutions
- Promote lending by financial institutions based on customer’s business potentials
- Secure Japan’s status as an international financial center and realize Asia’s growth potential
- Enhance settlement systems

Approach toward Companies
- Establish the Corporate Governance Code
- Promote to increase the number of companies voluntarily adopting the IFRS
- Strengthen the competitiveness of companies

Approach toward Households
- Establish a positive cycle in which household assets are allocated to funding for growing businesses
Approach toward Households
Establish a positive cycle in which household assets are allocated to funding for growing businesses

◆ Promote the use of NISA by expanding the range of investors through implementing policies that reflect the needs of investors and improving financial education

◆ Reform the fund management business by
  • Increasing the transparency in the management of investment funds and offer investment products that reflect the needs of investors
  • Considering and reaching a conclusion before the end of this year on measures to foster an environment in which fund managers fulfill their duty and manage the funds by truly reflecting the needs of investors
NISA (Nippon Individual Savings Account)

NISA stands for “Nippon Individual Savings Account”, and gives individual investors a tax exemption on dividends and capital gains derived from listed shares and investment trusts.

【Purpose】
① Support of asset formation for households
② Supply of risk money for economic growth

<table>
<thead>
<tr>
<th>Item</th>
<th>Outline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timing of the Introduction</td>
<td>January 1, 2014</td>
</tr>
<tr>
<td>Investment period</td>
<td>10 years (2014~2023)</td>
</tr>
<tr>
<td>Scope</td>
<td>Dividends and capital gains derived from listed shares and publicly-offered stock investment funds in NISA account</td>
</tr>
<tr>
<td>Annual investment limit</td>
<td>JPY 1 million (USD 9,800)</td>
</tr>
<tr>
<td>Tax-exempt period</td>
<td>5 years</td>
</tr>
<tr>
<td>Eligible persons</td>
<td>Residents of Japan (20 years old and above)</td>
</tr>
<tr>
<td>Withdrawing</td>
<td>Free (Reinvestment is not allowed)</td>
</tr>
<tr>
<td>Profit/loss offset</td>
<td>Tax losses generated in NISA accounts are not available</td>
</tr>
<tr>
<td>Number of accounts</td>
<td>Only 1 account per person</td>
</tr>
</tbody>
</table>
Investment in complex investment products

“Client first” principle is not enough respected

Lack of human resource with high level fund management expertise

Asset managers should recognize the responsibility they owe to investors such as fiduciaries, fully exercise their ability as an investment professional, and manage assets to truly meet the investor’s needs

⇒ Promote measures to “enhance fund disclosure”, “mitigate conflicts of interest between asset managers and investors”, “develop and secure asset management professionalism”
Approach toward Financial Institutions
Promote lending by financial institutions based on customer’s business potentials

- Appropriately implement the Supervisory Policies and the Financial Monitoring Policy to ensure that financial institutions make efforts to provide financing taking well into consideration the growth potential of debtor’s business, and that related stakeholders cooperate with each other to improve the performance, productivity, and sustainability of businesses.

- Encourage regional financial institutions to make use of the “Guideline for Personal Guarantee Provided by Business Owners”.

- Promote regional financial institutions to make use of specialist personnel in the management of regional companies via the Regional Economy Vitalization Corporation of Japan (REVIC).

- Encourage REVIC to establish funds and supply money to support core regional companies in achieving management improvements without delay.
II  Focus of monitoring

2. Lendings based on customers’ business potentials

- Under the globalization of Japanese enterprises and the decreasing Japanese population, the followings are essential for the growth of the Japanese economy:
  - maintain and enhance global competitiveness of Japanese industries/enterprises; and
  - promote employment and wages of local industries/enterprises through improving efficiency and productivity under the current labor shortage.

- J-FSA will review whether financial institutions provide credits and other services based on appropriate appraisal of their customers’ business potentials, without depending excessively on customers’ financial data and guarantees.
Secure Japan’s status as an international financial center and realize Asia’s growth potential

- Develop infrastructures for securities settlement and promote the standardization of bond issuance documentation and procedures with ASEAN countries
- Introduce more convenient information services in English regarding financial administration in order to make Japan’s financial and capital markets more accessible
- Strengthen support for Japanese financial institutions operating businesses in Asia
- Foster an environment for establishing a listed infrastructure-fund market and issuing healthcare REITs
- Realize a comprehensive exchange at the earliest possible time

Enhance settlement systems

- Promote efforts to enhance settlement systems, such as real-time bank transfers
Approach toward Companies
Establish the Corporate Governance Code

◆ A panel of experts established jointly by the Tokyo Stock Exchange (TSE) and the Financial Services Agency (FSA) will discuss and publish the key elements of the Code by around 2014 autumn.

◆ The TSE will newly draft a “Corporate Governance Code” Code in time for the season of general shareholders’ meetings in (June,) 2015.
The Corporate Governance Code was finalized in February 2014 under the Japan Revitalization Strategy (Cabinet decision in June 2013). As many as 160 institutional investors have signed up to the Stewardship Code as of the end of August 2014.

Excerpts from the Revised Japan Revitalization Strategy (Cabinet decision in June 2014):

- The Corporate Governance Code will be drafted by referring to the OECD Principles of Corporate Governance, and reflecting the circumstances of Japanese companies.
- The FSA and the Tokyo Stock Exchange (TSE) should establish the council of experts to discuss on the Code and publish the key elements of the Code by around 2014 Autumn.
- The TSE will newly draft the Corporate Governance Code in time for the season of general shareholders’ meetings in (June,) 2015.
Promote to increase the number of companies voluntarily adopting the IFRS

- Strive to increase the number of companies voluntarily adopting the IFRS

- Compile and publish an “IFRS Application Report” (tentative name) as a reference for companies considering adopting the IFRS

Strengthen the competitiveness of companies

- Encourage more widespread use of the JPX-Nikkei Index 400, such as by supporting the prompt listing of futures

- Improve the audit quality and promote measures to enhance the attractiveness of qualified CPAs