

Japan Revitalization Strategy (Revised 2014)

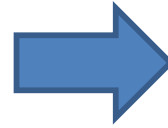
(Cabinet Decision on June 24, 2014)

**– Major measures related to
Financial and Capital Markets –**

Overview (1)

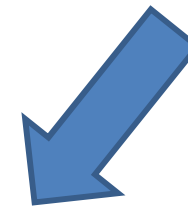
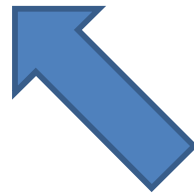
- Strategic financing for growth-oriented businesses is the key to successful implementation of initiatives for overcoming deflation and achieving sustainable economic growth under Abenomics.

**Exit from the
deflationary stagnation
(2% target for inflation)**



**Promote stable asset formation
and sufficient return**

Positive cycle



Financing for growing areas

Overview (2)

(as of June 2014, trillion yen)

< Domestic Non-financial Sector >

Asset

Households

1,645

Non-financial Companies
943

General Government
537

< Financial Intermediaries >

Liability

Asset

Depository Financial institutions

Deposit 1,294

Loan 688

Securities 119

Securities 510

Insurance/Pension
441

Other Financial Intermediaries
655

< Domestic Non-financial Sector >

Liability

Liability
355

Non-financial Companies
1,302

General Government
1,177

Approach toward Households

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

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

- ◆ 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

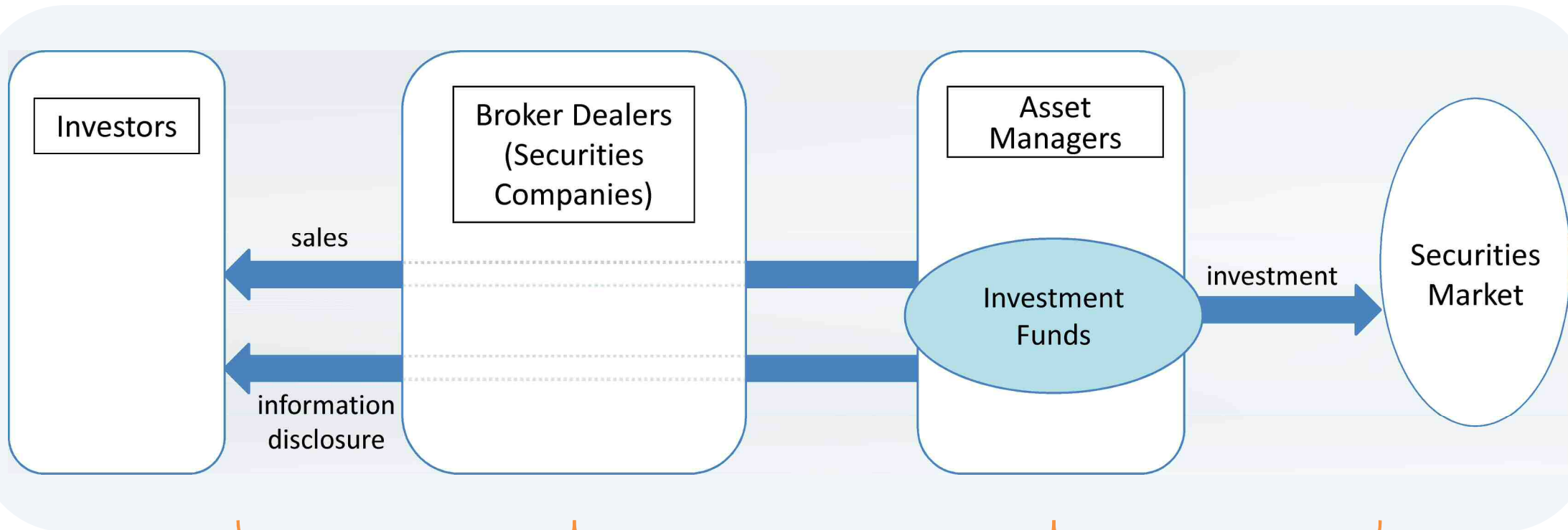
NISA (Nippon Individual Savings Account)

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

Item	Outline
Timing of the Introduction	January 1 , 2 0 1 4
Investment period	1 0 years (2 0 1 4 ~ 2 0 2 3)
Scope	Dividends and capital gains derived from listed shares and publicly-offered stock investment funds in NISA account
Annual investment limit	JPY 1 million (USD 9,800)
Tax-exempt period	5 years
Eligible persons	Residents of Japan (2 0 years old and above)
Withdrawing	Free (Reinvestment is not allowed)
Profit/loss offset	Tax losses generated in NISA accounts are not available
Number of accounts	Only 1 account per person

Enforcement of Fund Management



Problems

Investment in complex investment products

“Client first” principle is not enough respected

Lack of human resource with high level fund management expertise

Recommendations

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

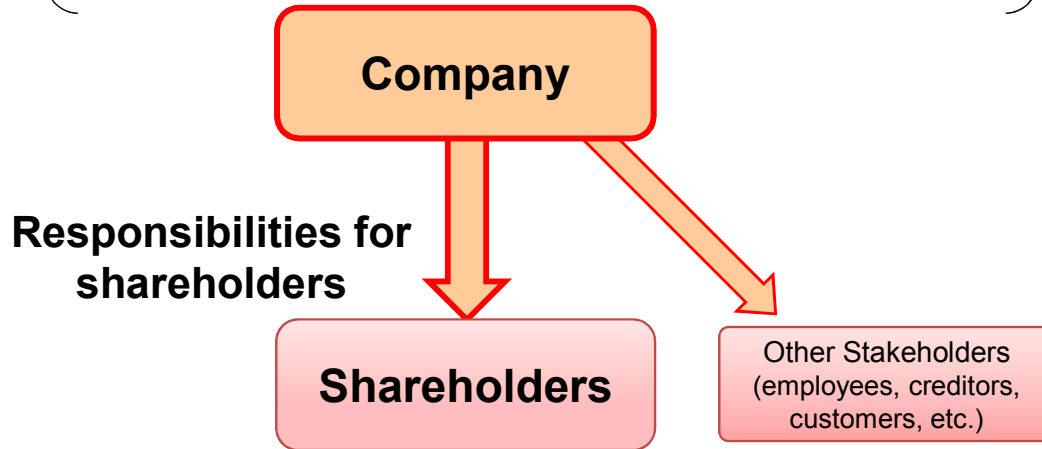
Establish the Corporate Governance Code

- ◆ 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.

Corporate Governance Code and Stewardship Code

Corporate Governance Code

- ◆ Principles of good practice for companies
- ◆ Responsibilities for shareholders and other stakeholders

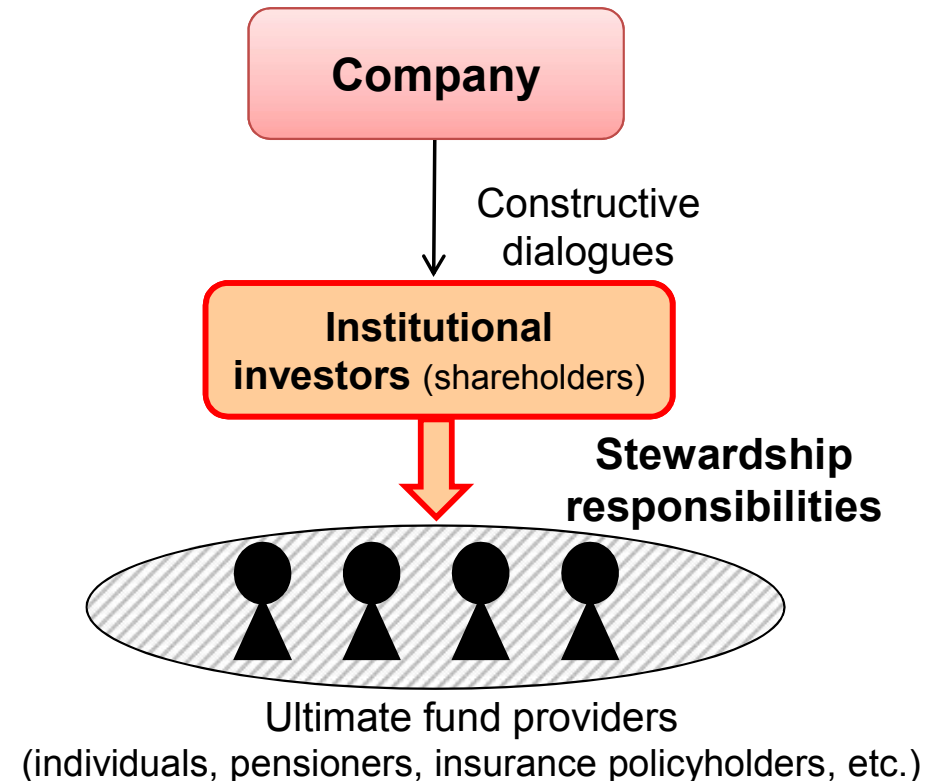


Excerpts from the Revised Japan Revitalization Strategy (Cabinet decision in June 2014):

- 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.

Stewardship Code

- ◆ Principles of good practices for institutional investors
- ◆ Responsibilities for the ultimate fund providers (trustor)



The Stewardship 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.

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