RECOMMENDATIONS TO PROMOTE

TOKYO AS A GLOBAL FINANCIAL CENTER

March 16, 2007

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TABLE OF CONTENTS

IBA Chairman's Statement	....	3
Executive Summary	....	4
Section 1:	Introduction and Vision	6
Section 2:	Government Commitment..	9
Section 3:	Governance and Administration of the Financial Sector	11
Section 4:	Firewalls and Financial Conglomerates	14
Section 5:	Exchanges	17
Section 6:	Hedge Funds	19
Section 7:	Taxation Issues..	21
Section 8:	Human Resource Issues	23
Section 9:	Other Supportive Measures	28
Appendix:	IBA Membership List	30

IBA CHAIRMAN'S STATEMENT

March 16, 2007

Since its inception in 1984, the growth of the IBA has mirrored the growth of the opportunities in the Japanese financial services industry. Today the IBA represents 65 financial institutions from 21 countries and five continents. The IBA's membership consists of financial groups, commercial banks, securities firms and representative offices based in Japan, employing more than 15,000 people in Japan, more than 95% of whom are Japanese. The IBA is the only industry association in Japan dedicated exclusively to representing the interests of the foreign banking and securities industries.

The Japan-based leaders of our members care deeply about the development of the financial sector in Japan. Indeed, within their global firms they are the most important advocates for greater investment in Japan. Therefore they strongly support the Government of Japan's efforts to promote Tokyo as a global financial center. Given the global nature of their firms, they are also uniquely placed to provide views on this matter.

We believe that there is a tremendous opportunity to make Tokyo a global financial center. In this paper we have tried to provide constructive and practical recommendations on how to make this happen.

The IBA prides itself on the excellent dialogue built over the years with the Japanese government authorities, particularly with the Financial Services Agency. We see this paper as a contribution toward our common goal of making Tokyo a global financial center. We look forward to further opportunities to continue our discussions and to elaborate on the recommendations in this paper.

Paul Kuo
Chairman
International Bankers Association

CEO & President
Representative Director
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EXECUTIVE SUMMARY

The IBA has a long history of working constructively with the authorities in Japan, in particular with the Financial Services Agency, to find ways to promote the development of Japan's financial sector. This paper is divided into nine sections which discuss specific measures to realize the goal of making Tokyo a truly global financial center.

Section 1 notes that Japan's financial services industry has the potential to be further developed. This will help to diversify the economy and to create many more rewarding jobs. In this section we lay out our vision of how Tokyo could look in 2015. In our view Tokyo's key strengths as a financial center lie in its deep pools of capital. Attracting more listings, especially from Asia, will be an important measure of progress. The experience of other countries indicates that if Japan can introduce proactive policy reforms such as those recommended in this paper, there is an excellent opportunity for the financial services industry to be a significant driver of growth in GDP and employment, and indeed to be a more secure and stable platform for the Japanese economy.

Section 2 discusses the role of government and the experience of other countries. In an increasingly globalized world, countries with large financial sectors must constantly review their competitive position. Tokyo is already an important financial center, but the IBA shares the Government of Japan's view that more can be done to promote Tokyo as a global financial center. We believe that this can be achieved by 2015 with a firm commitment by the Government, backed by the concerted efforts of the public and private sectors. Such a commitment could be demonstrated by establishing a public-private Financial Sector Promotion Organization (FSPO), reporting to the Cabinet Office. The purpose of the FSPO would be to support the development of Tokyo as a global financial center by, for example, promoting a more dynamic financial services labor market, attracting more listings from Asia, and marketing Tokyo's advantages overseas.

In Section 3 we suggest changes to the governance and administration of Japan's financial sector. We recommend that consideration be given to establishing a new governance framework based on the four core principles of consistency, effectiveness, efficiency and transparency. Such a governance structure would include formation of an integrated, independent and empowered regulatory and supervisory body, able to adapt quickly to the fast pace of financial innovation.

Section 4 discusses the changes in the regulation and supervision of financial conglomerates which have taken place in Japan and other countries in recent years. The IBA recommends that the Government of Japan review these experiences and give serious consideration to lowering the so-called "firewalls" separating legal entities within a financial conglomerate, in order to improve management oversight and efficiency. We also recommend some interim measures in this respect.

In **Section 5** we describe the opportunity to promote Tokyo as a global financial center by making Tokyo the most attractive place to list in Asia. To realize this opportunity, however, it is essential to reduce the regulatory and cost burden currently associated with listings in Tokyo. In addition, the number of exchanges in Japan could be reduced, the remaining exchanges should be made more resilient to trading disruptions and other shocks, and the product offering on exchanges could be increased. Special incentives and exchange structures could be established to attract growth-oriented companies from Asia, with a particular emphasis on raising capital from professional investors.

The importance of introducing measures to make Tokyo attractive for the hedge fund industry is discussed in **Section 6**. At present most Japan-focused hedge funds are located outside of Japan. For this to change it is important to make the regulatory and tax environment more inviting by: (1) changing the rules to allow hedge fund managers to undertake all facets of their business through a single entity, (2) easing the tax burden on hedge funds, including reconsideration of laws which aggregate partnership holdings for purposes of determining taxability; and (3) making disclosure requirements consistent with other major jurisdictions.

In **Section 7** we recommend a limited number of tax changes to help stimulate financial sector activity, and in particular to facilitate the shift of Japanese savings into investments. Such tax measures could include favorable tax treatment for retirement accounts as well as supportive capital gains and dividend taxation policies. We also recommend improvements to Japan's tax treaties, a more open process to discuss tax policy and administrative changes with the private sector, and improvements to the administration of the tax system.

Section 8 describes the importance of skilled human resources to Tokyo's future development as a global financial center. Our recommendations fall into four areas: (1) education: better practical English language training in schools; "financial capability" education for young people in schools; better professional education and training through universities; and more internships in the work place; (2) immigration: more open immigration policies to help support an increase in the number of women and other professionals in the work place; (3) people management: we recommend more flexibility to manage staff through measures such as the "white collar exemption"; and (4) taxation: a relaxation of the current taxation policy for foreigners who stay in Japan more than five years over a period of ten years, to encourage them to develop long-term expertise in Japan.

Finally, in **Section 9** we discuss additional supportive measures to increase Tokyo's importance as a global financial center. These are: (1) the need for more legal and accounting professionals who have international experience; (2) the benefits of introducing a more open consultative process in developing legislation and policy to receive private sector views; and (3) measures to reduce the travel time to central Tokyo by introducing transportation alternatives for Narita airport and by reserving a significant amount of Haneda airport's future expanded capacity for international flights.

SECTION 1

Introduction and Vision

(a) Introduction

Since the launch of the financial "Big Bang" in 1996, there has been significant deregulation of Japan's financial sector which has benefited both the users and providers of financial services. Some IBA members, particularly securities firms, have expanded their presence in Japan over the past ten years; on the other hand, foreign commercial banks' business in Japan has generally been stable, with some banks reducing or even ending their presence in Japan.

The past 15 years have seen tremendous changes in the Asian and global financial services industry, notably:

- The ascension of Hong Kong and Singapore as important bases or "hubs" for foreign financial institutions;
- The rise of China as an economic power and of Shanghai as the Mainland's financial center;
- Increasing levels of sophistication of financial products and services, including the growing importance of various kinds of derivatives and of the alternative investments industry (including private equity and hedge funds);
- Consolidation of financial institutions into "mega-groups" in Japan and abroad; and
- Growing competition among financial centers in Asia and globally.

From the late 1990s until roughly 2005 the financial regulatory authorities in Japan were focused on promoting the restructuring of the City banks and encouraging the disposal of non-performing loans. As a result of the efforts of the authorities and the City banks, as well as thanks to a recovering economy, the Japanese banking system is now in a healthy state. It should be recognized, however, that during that period of upheaval events in Asia and globally moved swiftly. Therefore it is entirely appropriate for both industry and the authorities to now focus their efforts on a vision for the future, including how to make Tokyo a global financial center.

It is essential for Japan to further develop the high value-added, knowledge-based services industries, especially financial services, given the growing competitive pressures internationally on Japan's manufacturing base. Doing so will provide a needed boost to Japan's economy and will lead to greater diversification away from manufacturing. In sum, expanding the financial services sector will help to diversify and modernize the Japanese economy.

Based on the experience of other countries, enhancing the role of Japan's financial services industry will have important multiplier effects throughout the economy. Clearly, financial services can be the new engine driving Japan's growth over the next generation.

In this new drive to energize Japan's financial sector, Tokyo starts with many important advantages over other financial centers. The biggest advantage is that of being the financial center to Japan's massive pools of financial assets. In addition, Japan's financial assets can fund the investment appetite of the rest of Asia, the world's fastest growing region, with Tokyo playing a key role in matching the suppliers and seekers of capital.

Japan also has the tremendous advantage of having a highly educated, highly literate work force. Furthermore, in many respects Tokyo has the best infrastructure of all the world's "mega-cities." Finally, Tokyo offers an excellent quality of life, an increasingly important factor in attracting top global talent.

(b) Our Vision for 2015

A compelling vision of the future needs to be able to spark the imagination and help mobilize the enthusiasm of those who need to make difficult adjustments, by infusing them with the belief that the destination justifies the journey. For that reason, we start our analysis of Tokyo's future as a global financial center by imagining what success might look like.

The IBA has the following vision of how Japan's markets and financial services environment should look in 2015:

- Tokyo is the largest, most dynamic financial market in the Asian region;
- "Made-in-Japan" financial innovation sets the standard for the world;
- The financial sector will be an open and highly competitive marketplace offering both institutional and individual clients sound advice and choice from a broad range of products that can be tailored into solutions that are clearly suited to their financial needs and goals;
- The capital markets will be a critical source of financing and advice for Japanese corporates as they expand at home or abroad, restructure, acquire or merge, laying the foundation for Japan's 21st century economy;
- Highly developed capital markets will lessen the risk of an over-reliance on bank financing which could negatively impact the stability of the economy;
- The financial regulators are viewed, both by industry and their global peers, as leaders in innovative regulatory and supervisory practices; and
- The financial services sector is viewed by Japanese society as an industry which provides attractive, knowledge-based, rewarding jobs.

In the IBA's vision, by the year 2015 Tokyo will have become a marketplace which is both truly international yet unmistakably built on the key strengths of Japan, reaping the benefits of a clear set of goals and priorities, backed up by determined implementation. In our vision for Tokyo in 2015, it is the migration of Japan's pool of individual financial assets "from savings to investments" which is the catalyst for this revival. By successfully uniting Japan's huge and internationally-minded demand for investment with a marketplace which guarantees that its constituents adhere to a carefully defined and defended standard of quality and reliability, such a revival is possible. A steady inflow of foreign listings, facilitated by an avoidance of overregulation, will bring increased investment by securities firms researching, trading and broking those financial instruments, and then by the money management industry which will find the proximity to such a concentration of market intelligence to be irresistible.

Not only should Tokyo look to attract parts of the financial industry hungry for access to Japan's huge investment pools, but also trading participants in the region's over-the-counter professional markets, as well as key professionals from lawyers and compliance experts to risk control experts and accountants, which are essential for the financial services industry to function. In addition, Tokyo should become the natural regional headquarters from which global financial firms manage their operations in this vastly dispersed time zone.

The development of the labor market for finance professionals should be driven by creating focused finance education programs designed to produce a pipeline of well-trained and ambitious graduates ready to pursue financial careers. It can be accelerated by promoting skilled immigration, actively attracting foreign talent to a city which has the natural advantage of already being among the world's best in terms of quality of life.

We would not recommend that Tokyo attempt simultaneously to become a financial center in all aspects. For example, with a huge domestic market, it is not necessary or sensible to make the adjustments to the legal and taxation framework needed to create a large offshore wealth management industry. Moreover, a focus on high value-added services and people also means ceding the ambition to become the region's operational center to lower-cost locations.

SECTION 2

Government of Japan Commitment

By launching the "Asian Gateway" initiative in October 2006, and then establishing two study groups in January 2007 to review measures to increase the internationalization of Japan's financial and capital markets, the administration of Prime Minister Abe has already made a clear statement that it believes significant efforts are needed in this area. Like the Government of Japan, IBA member financial institutions in Japan are highly aware that there is growing competition among cities in Asia to attract foreign financial institutions, to serve both the domestic market and regional markets. We believe that examining the experience of other financial centers will help to illuminate the way forward.

(a) International Experience

Major, well-established financial centers which have recently reviewed their international competitive position, such as **New York**, have concluded that there is a need for a clear statement of priority as well as appropriate political and administrative support. For example, the recent report by McKinsey ("Sustaining New York's and the U.S.' Global Financial Services Leadership"), commissioned and endorsed publicly by the Mayor of New York City, Michael Bloomberg, and the Senator for the State of New York, Charles Schumer, recommends the establishment of a "public-private joint venture with highly visible leaders" to promote New York's financial services interests in the United States and abroad.

In the **United Kingdom**, the Chancellor of the Exchequer (i.e. Minister of Finance), Gordon Brown, launched a major initiative in his March 2006 Budget to ensure that the public and private sectors "work together on a single strategy for promoting Britain's financial services sector around the world." Indeed, Chancellor Brown has shown his commitment to this goal by chairing a meeting of London-based financial services executives on October 18, 2006. The group includes more than 30 CEOs and senior executives from UK and foreign firms, as well as the CEO of the Financial Services Authority and the Deputy Governor of the Bank of England.

Singapore is an excellent example of the role that public policy can play in increasing the internationalization of a domestic financial market. Until the 1990s Hong Kong held the lead within East Asia as the center for foreign financial institutions to base their regional operations. However, having made this a national priority, the Government of Singapore has succeeded in attracting significant investment from foreign financial institutions through a combination of incentives and better marketing of its advantages. Singapore has also built a new university to compete with regional and global business schools. Promotion of the financial services sector is shared between the Economic Development Board, a government agency, and the Monetary Authority of Singapore (MAS), the financial regulator/supervisor and central bank. Success is evident in the fact that the financial services sector now makes up more than 10% of GDP.

In **Hong Kong**, the financial services industry is a pillar of the economy, contributing more than 12% of GDP in 2004. Specialized promotion agencies such as InvestHK and the Hong Kong Trade Development Council have played an important role in marketing Hong Kong's advantages to the financial services industry. One of the core objectives of the Hong Kong

Monetary Authority, which is both the financial regulator and the central bank, is to maintain Hong Kong's importance as a financial center: "The HKMA is committed to promoting a safe, efficient and reliable financial market infrastructure to help maintain Hong Kong's status as an international financial centre" *(HKMA 2005 Annual Report*, page 19*)*.

(b) Financial Sector Promotion in Japan

The IBA believes that the authorities in Japan can benefit from the experience of other markets to increase efforts to promote Tokyo as a global financial center. Other countries have concluded that there is an important role for a top-level administrative organization, which is both close to elected decision-makers and firmly anchored by private sector input, to drive the promotion of their financial center.

One of the tasks for such a Financial Sector Promotion Organization should be to undertake a targeted marketing exercise to better promote Tokyo's advantages, which include:

- The largest pools of liquidity in Asia;
- A highly educated workforce;
- The best public infrastructure of the world's "mega-cities;"
- Good public safety and low crime rates compared to other major financial centers; and
- A "world-class city" with a dynamic urban environment.

Recommendation: The IBA recommends that the Government of Japan make a clear statement that the financial services sector is an important engine of economic growth, and that opening Japan's financial services industry and markets more to the world will benefit Japan.

To demonstrate its commitment, the IBA recommends that the Government of Japan establish a public-private "Financial Sector Promotion Organization" (FSPO) directly under the Cabinet Office with full participation from domestic and international financial institutions, experts and other stakeholders, and a private sector representative as CEO. The purpose of the FSPO would be to promote the development of Tokyo as a major financial center by, for example: 1) leading Japan's efforts to bring about a more dynamic financial services labor market; (2) marketing Tokyo's advantages overseas, particularly within Asia, as a place for new listings and for hedge funds to manage funds and to seek capital; and (3) acting as the voice within Japan advocating measures to strengthen Tokyo as a global financial center.

SECTION 3

Governance and Administration of the Financial Sector

The evolution of Japanese financial sector governance and administration to its current form is the result of considerable foresight on the part of the Japanese government and regulators. The IBA believes that further focus on the four core principles of consistency, effectiveness, efficiency and transparency will lead to an even stronger regulatory foundation.

(a) Four Core Principles

<u>(i) Consistency</u>

Maintaining consistency in the regulation of the financial services industry is of paramount importance as product offerings become more complex. Investor protection weakens if regulations do not keep pace with increasingly sophisticated product development. A consistent regulatory approach across all product offerings, including, for example, deposits, insurance, commodities and securities transactions, would be in the best interest of both regulators and investors.

<u>(ii) Effectiveness</u>

Effective regulation provides maximum protection to investors by ensuring that sufficient numbers of qualified personnel enforce clear, globally-benchmarked rules prescribed by the regulators. The drafting of such rules should follow an active dialogue with industry practitioners within and outside the regulators, including ample opportunity for public comment. Increasing the flow of financial industry professionals from the private sector to the regulators would enhance regulatory effectiveness by allowing the regulators to tap the knowledge of product development, legal and accounting experts who heretofore have focused their careers only within the private sector.

<u>(iii) Efficiency</u>

Regulatory efficiency is largely the result of implementation of the tenets of consistency and effectiveness as described above, as duplicative (and potentially inconsistent) rules are avoided when such practices are invoked. Duplicative inspection and regulatory reporting can also be eliminated in such an efficient environment. Adopting a consistent regulatory approach across all products in a regulator heavily staffed by industry professionals will also allow robust cost-benefit analyses beyond those expected upon implementation of the *Financial Instruments and Exchange Law* (FIEL).

<u>(iv) Transparency</u>

Regulatory transparency allows management in the private sector to more effectively manage their institution as the expectations of the regulators are clearly understood by all participants. Full disclosure of the basis of each sanction applied by the regulators allows a more complete understanding of how institutions can best ensure their own optimal control framework.

(b) Proposed Governance Structure Model for Financial Administration

(i) Coverage of All Financial Products

Consistency can be most readily applied to supervision through consolidation of oversight of all financial products. This would eliminate duplicative rules, inspection and regulatory reporting, while allowing more efficient use of qualified resources. Policy planning and drafting would also be most effective and transparent under unified product coverage. Coordinated inspections by a body empowered with oversight of all financial products would ensure effective, consistent and transparent monitoring of activities. While the FIEL makes major strides toward achieving this aim, it does not unify oversight of all financial products; this should be considered in the next phase of FIEL drafting.

(ii) Ties with Industry

Frequent dialogue with industry is crucial to ensuring consistent flow of information between financial institutions and their regulators. Allowing appropriate time for public comment on new proposed legislation and regulations would also foster strong channels of communication with the regulator. Private to public sector flow of qualified industry professionals would expand through enhanced career opportunities in an industry-funded regulatory and supervisory body as described in (iv) below. Consideration should be given to increased hiring from industry at both senior and staff levels, while also increasing the total number of professionals from the current low base.

(iii) Principles-Based Regulation

The principles of regulation dictate the level of confidence held in regulatory bodies. Internationally-recognized standards of regulation prevail, with each major international jurisdiction maintaining its own unique, local flavor reflective of government's longer-term financial market goals within the context of a nation's economic aspirations. Principles-based regulation also allows greater predictability of regulatory action. Furthermore, the effectiveness of official, written regulatory interpretations by such means as "Written Enquiry Procedures for General Legal Interpretation" and No Action Letters is enhanced, as legally-binding guidance may be more easily incorporated.

(iv) Integrated, Independent and Empowered Regulatory and Supervisory Body

Creation of an empowered regulatory and supervisory body, integrated across all products, governed by an appropriate Agency/Ministry and industry-funded, could address the ideals illustrated in the four core principles highlighted in *(a)(i-iv)* above, protecting consumers by entrusting regulation and oversight to the most qualified professionals. Such a regulatory and supervisory body would also address the fundamentals of consolidated financial product coverage, industry dialogue and principles-based regulation.

While policy planning and law drafting for all financial sectors would reside with a government Agency/Ministry charged with oversight of the new supervisory body, the regulatory and supervisory body could assume responsibility for other aspects of unified financial sector supervision, including routine inspections. This supervisory body could also absorb and consolidate the self-regulatory functions of the organizations that presently supervise the various financial sectors, including the Japan Securities Dealers Association, Tokyo Stock Exchange, Financial Futures Association of Japan, Investment Trust Association of Japan and Japan Securities Investment Advisors Association.

Integrating these functions in a single regulatory and supervisory body would allow a consistent approach to regulation of an increasingly complex product mix, especially in an environment where the product offerings of banks, brokers, asset management companies and insurance companies are increasingly similar.

As such a regulatory and supervisory body would be industry-funded (at least partially), the taxpayer burden for financial sector regulation and supervision would be minimized. In addition, attractive career prospects would enhance the flow of qualified industry professionals into the supervisory body from the private sector. Such expertise would maximize regulatory effectiveness as the lag between "street" product development and regulatory framework formation would be minimized. A high number of qualified industry professionals at both senior and staff levels in the supervisory body would also allow ready access to private sector institutions, facilitating effective dialogue with the industry.

A principles-based approach to regulation within the regulatory and supervisory body would maximize transparency as market participants would clearly understand the expectations of the regulator. Further, given that the regulatory and supervisory body would integrate the self-regulatory functions of the current self-regulatory organizations and consolidate routine inspection of all financial products, duplicative rules, regulatory reporting and routine inspections would be eliminated and supervised institutions in the financial sector would clearly understand how regulations apply to their specific product mix.

Formation of this regulatory and supervisory body is an achievable ideal; many steps toward its realization have already been taken, reflecting successful international regulatory models while preserving key principles that differentiate Japanese markets and historical regulatory practice.

SECTION 4

Establishing a Highly-Receptive Regulatory Framework for Financial Conglomerates

Japan has a unique approach to regulating and supervising financial conglomerates. Regulators in other major markets perform regulation and supervision without maintaining strict separation between the financial services businesses taking place within financial conglomerates (e.g. banking, securities, trust business and asset management).

(a) Experience in the United States and Other Countries

In the **US**, the *Gramm-Leach-Bliley Act* (GLBA), one of the most important financial laws in the US for several generations, became law in 1999 after many years of debate during which the necessity of strict "firewalls" (i.e. rules designed to separate banking and securities business) was widely questioned. The GLBA replaced the *Glass-Steagall Act* (GSA) of 1933, which had become a relic of a different economic and financial era, namely the aftermath of the 1929 stock market collapse.

The GLBA repealed two key sections of the GSA: (1) section 20 which prohibited banks from being affiliated with an organization "engaged principally" in underwriting activities; and (2) section 32 which prohibited an individual from being associated with a bank and securities affiliate under the same parent company ("personnel interlocks" or "interlocking").

In the **UK**, there are no restrictions around interlocking of officers and directorships that are undertaken, although internal policies and procedures may limit the mandates which individuals may undertake in order to comply with general confidentiality and conflict of interest obligations. On the other hand, UK financial institutions are subject to confidentiality regulation and sharing of confidential or inside information is prohibited as an over-arching principle. Information barriers, and associated restrictions around these, and disclosure are some of the ways used to control the flow of such information.

Similarly, in Asia, **Hong Kong** and **Singapore** do not prescribe restrictive "firewalls" between different entities (bank branches, broker dealers, etc.), but allow both business and support personnel to share responsibilities across different entities subject to ensuring that proper internal controls (such as adequate supervision, independent review and monitoring of activities, segregation of duties) are maintained, inside information is protected through robust "information barrier" arrangements and confidentiality of client information is protected. Regulators also expect that any conflicts arising from shared responsibilities are mitigated and properly managed and that the individuals and entities in question have the appropriate authorizations and licenses.

(b) Developments in Japan

One benefit of the Hashimoto government's 1996 financial "Big Bang" related to financial conglomerates was legislative change to permit financial holding companies. In 2001, the Financial Services Agency initiated important revisions to the Ordinances related to Articles 65 and 45 of the *Securities and Exchange Law*, to permit the sharing of internal control functions such as compliance and risk management among certain regulated entities within a financial conglomerate. In 2004, the FSA also introduced a measure through which banks may introduce their customers to securities companies by way of intermediation.

Over the past several years the FSA has moved toward a financial conglomerate regulation system in the Supervisory and Inspection Bureaus. Progress has been made towards the goal of having effective regulations for financial conglomerate groups, as opposed to each entity comprising such groups, within the confines of the current legislative framework

(c) IBA Financial Conglomerate Members in Japan

The IBA has 17 financial conglomerate members, representing most of the world's largest financial groups (please see list in Appendix). Their organizational structure in Japan must be significantly changed in order to meet the Articles 65 and 45 firewalls requirements under the *Securities and Exchange Law* (now Articles 33 and 44 of the FIEL). The IBA believes that the Japanese authorities have already deregulated the firewalls rules to some extent, but the current arrangements, through highly complex Ordinances, sometimes result in a lack of clarity and predictability for market players. It also means that there is a significant additional burden placed on the FSA to provide clearer guidance to regulated financial institutions on what activities are permitted.

The IBA believes that it is time for the Japanese authorities to go the extra step and to repeal Article 33 and revise the Ordinance (yet to be promulgated) under Article 44 of the FIEL. The experience of the United States since the introduction of the GLBA demonstrates that it is possible to eliminate the firewalls and still deal effectively with the regulators' legitimate concerns about: (1) isolating risk between banks and securities companies; (2) preventing conflict of interest and insider trading; and (3) abuse of dominant power. The IBA also believes that the ability to appoint senior management to different entities of the same group ("personnel interlocks") will improve corporate governance, including the compliance culture.

IBA financial conglomerate members currently encounter the following problems due to the firewalls restrictions in Japan: (1) inefficiencies due to the overlapping of human resources, organizational structures, and systems; (2) constraints on effective and efficient business management practices, including the formulation and implementation of business strategies and risk management at the group level; and (3) constraints on providing comprehensive financial services that would maximize customer convenience.

Recommendations: The Government of Japan should give serious consideration to repealing Article 33 and revising the Ordinance (yet to be promulgated) under Article 44 of the FIEL. It is understandable that a transition period might be necessary, therefore we recommend that the authorities adopt the following measures in the interim:

1. Financial conglomerates that conduct banking, securities and other financial services businesses should be permitted to appoint a country representative with management responsibility for the entire group, above the firewall, and should be permitted to share customer information for internal management control purposes.

2. The requirements to obtain prior written consent from a customer to share their information amongst affiliates or third parties should, in principle, be abolished or at least replaced with the disclosure requirement with customers' ability to request non-sharing of their information across the entities within the group, and should be regulated under conflict of interest and insider trading regulations.

3. Sharing of customer information for internal management control purposes should be permitted among all affiliates within a group provided their main business is the provision of financial services and the customers are provided with the group's customer information sharing policy.

4. The definition of "customer information", which is stipulated by a number of different laws and regulations, should be streamlined and clarified to increase transparency.

5. Regarding conflicts of interest, considering the wide diversity of cases, clear guidelines to address conflict of interest cases should be made to clarify standards.

SECTION 5

Enhancing Japan's Stock Exchanges

Stock exchanges should be considered a national asset. Indeed, they are a reflection of the competitiveness of a nation's economy and capital markets. To be effective, a stock exchange must be perceived positively by market participants - - issuers, investors, and domestic and international intermediaries. Japan's exchanges have not yet lived up to their full potential in this regard. To be truly competitive in the global arena, an exchange must establish an efficient, dynamic and reliable foundation. There is a clear opportunity for Tokyo to redouble its efforts to firmly establish itself as the global financial center which attracts the most Asian listings, thereby differentiating itself from other overseas markets and effectively utilizing its substantial pools of capital to actively attract greater numbers of growing companies from the rest of Asia.

As pointed out in Section 2, the key reason why overseas firms should want to list in Tokyo is to be close to the massive pool of capital in Japan's stable economy. The goal is clear: to make "listed in Tokyo" the quality stamp of approval most highly sought by companies listing in Asia..

(a) Reducing the Regulatory Burden and Listing Costs

Proactive measures should be taken to further encourage foreign blue-chip and high-growth companies, particularly Asian companies, to list in Tokyo. In order to do so, however, it will be important to find the right regulatory balance between the cost of regulation and the need for improved corporate governance. In addition, reducing listing costs per shareholder and promoting higher trading volumes will be a key consideration in attracting and maintaining listings over the long term.

Recommendation: The government authorities and the exchanges should: (1) ensure to ease the so-called "J-SOX" requirements as applied to foreign firms which have already filed equivalent reports in other major markets so that any additional burden for them to meet the requirement shall be in fact minimized; and (2) reduce annual listing costs sharply in order to encourage more listings by foreign firms by, for example, relaxing the review process for acceptance of documents using International Financial Reporting Standards (IFRS).

(b) Attracting More Listings from Asia

The IBA believes that there is an excellent opportunity for Tokyo to become the listing destination of choice for Asian companies. This will require not only better marketing of Tokyo's advantages; it will also mean taking great care to establish listing criteria which maintain the Tokyo "quality stamp" but which are not so strict that they exclude a great number of potential companies.

Recommendation: The authorities in Japan should make a special effort to attract listings from Asian companies through special government incentives and better marketing. Consideration could be given to establishing a sub-exchange under the TSE for growth-oriented Asian companies, especially focused on attracting professional investors capable of taking risks associated with investment in such companies.

(c) Ensuring Market and Investor Confidence in the Exchanges

Markets always demand and expect exchanges to be stable. The resiliency of the New York and London Stock Exchanges to major shocks in recent years has demonstrated this is achievable.

Recommendation: Japan's exchanges should seek to alleviate uncertainties felt by market participants by maintaining well-developed contingency plans to effectively manage crises (both software and hardware-related issues). These plans should include the strengthening of trading systems' resiliency, sound BCP measures, and solid emergency plans in the event of a halt to trading.

(d) Consolidating Exchanges

There are currently six stock exchanges in Japan and every exchange except JASDAQ has its own section to list the shares of emerging and start-up companies. In addition, each exchange has its own listing criteria and trading rules. Not only does this create greater complexity, it also may give rise to "regulatory arbitrage" among companies seeking to list. While competition between domestic exchanges is important, ensuring market competitiveness on an international scale will require consolidation.

Recommendation: The authorities and exchanges should give serious consideration to creating a much smaller number of large yet competitive and robust exchanges.

(e) Listing of Diverse Products

The IBA welcomes the TSE's efforts to establish joint ventures and strategic alliances with major exchanges overseas, one of the benefits of which will be an increase in the diversity of listed products.

Recommendation: Exchanges should permit the listing of a wider variety of financial products that offer investors diversified investment opportunities.

SECTION 6

Making Tokyo Attractive for Hedge Funds

It is crucial to provide a receptive environment to important new sources of financing for Japanese enterprises. In addition to traditional capital markets, alternative investment vehicles, including, notably, hedge funds, have become increasingly active in both the United States and Europe, as well as in other parts of Asia. Hedge funds can play an important role in supporting a robust economy, in part by providing additional liquidity to the market. In addition, hedge funds may improve a market's corporate culture through promoting sound governance of portfolio companies. A financial center with a significant presence of hedge fund managers will attract a large number of professionals who service the hedge fund managers, notably from banks, securities companies, law firms, accountancies and IT service providers. Other countries, including those in the region, have made efforts to provide a welcoming environment for hedge funds. This has resulted not only in the benefits to enterprises in those countries, but also in a boost to the local economy and tax base, as hedge fund professionals establish local operations. There is a clear opportunity for Japan to address the concerns of hedge fund managers to ensure that Tokyo is considered the market of choice for their activities.

(a) International Experience

The growth of the global hedge fund industry over the past ten years has been explosive. A number of financial centers have sought to attract hedge funds, but the UK and Singapore have had particular success. In the **UK**, the tax authority created the "Investment Manager Exemption," which allows the profits of an eligible non-resident hedge fund not to be included in the UK's tax net. This means that the UK only taxes the profits of the agent, the UK investment adviser, rather than the profits of its principal, the offshore hedge fund. This tax change has played an important role in strengthening London's importance as a center for hedge fund managers. **Singapore** has arguably created the most hospitable regime in Asia for fund managers setting up operations to manage hedge funds, offering a "red carpet" approach that provides both tax and regulatory incentives.

(b) Facilitating Unified Business

Under current law, hedge fund managers find it difficult to undertake all facets of their business through a single entity. Certain investment activities of investment advisors, such as stock lending, which are permitted in other jurisdictions, are restricted under current law in Japan. In addition, separate licenses are required for hedge funds and for the advisors to such funds. The hurdles for a single entity to conduct its various business lines act as a disincentive for hedge fund professionals to establish operations in Japan.

Recommendation: The Government of Japan should address regulations to facilitate a single entity to conduct the various activities essential to its business. Statutory restrictions on stock loan activities by investment advisors should be liberalized. Stock lending onshore should be encouraged by investors who want incremental yield from mid- to long-term holdings. Licenses needed for hedge fund businesses, including management and advice, should be unified.

(c) Easing the Tax Burden

(i) Hedge funds proposing to operate in Japan are potentially subject to burdensome taxation. That is because the activities of the hedge fund manager or discretionary investment advisors within Japan could cause a hedge fund to be subject to taxation in Japan. In that case, the result would be a significant reduction to the fund's return. That prospect consequently acts as a significant disincentive for a hedge fund manager to operate in Japan.

Recommendation: The tax regime should be revised to make it clear that hedge fund managers' activities, within certain guidelines, do not cause the funds they manage to become subject to tax in Japan. Specifically, hedge fund managers should be permitted a broader range of discretionary activity in Japan without the risk of the managed funds being deemed to have a permanent establishment.

(ii) In addition, recent legislation looks to partnership holdings as a whole, rather than the holdings of individual partners, for purposes of determining whether such partnerships exceed large-scale thresholds which trigger taxation of gains.

Recommendation: The laws that aggregate partnership holdings for purposes of determining taxability should be reconsidered.

(d) Appropriate Disclosure Requirements

In many jurisdictions, such as the United States, hedge funds are not subject to the same regulations as other investment vehicles. Hedge funds, which typically have limited numbers of investors, are frequently carved out from registration and reporting requirements. In Japan, by contrast, where a license is required to act as an investment company, hedge funds would also be subject to periodic disclosure requirements.

Recommendation: Laws in Japan applicable to investment companies should be revised to minimize registration and reporting requirements for hedge funds, coordinating with similar regimes in other jurisdictions. Carve-outs for alternative investment vehicles with limited numbers of investors should be considered.

SECTION 7

Creating More Supportive Taxation Measures

The IBA strongly supports the Government of Japan's efforts to improve Japan's fiscal situation, initially by achieving a primary surplus around 2010. Restoring the country's fiscal health will help to promote a sounder foundation for Japan's future economic and social development. Further fiscal consolidation is essential to realize Prime Minister Abe's vision of an open and "beautiful Japan." That said, it has been widely noted that Japanese corporate income tax rates, at roughly 40%, are high compared to many other OECD countries. In addition, the OECD's July 2006 *Economic Survey of Japan* notes that only one-third of corporations in Japan pay income tax. This would suggest that achieving fiscal balance in the medium term will require policy measures that broaden the tax base, offset by reduced corporate tax rates.

(a) Encouraging "from Savings to Investments"

To increase Tokyo's importance as a financial center, tax policy measures which encourage the shift "from savings to investments" are necessary. As noted in pages 10-11 of the Nomura Capital Markets Research Institute's paper (submitted to the Financial System Council's Study Group on February 16, 2007), in the United States, tax policy measures such as Investment Retirement Accounts ("IRAs") and "401ks" played a critical role in encouraging individuals to invest in the markets. This is a process which began a generation ago and has had long-lasting benefits for the financial services industry and capital-raising activities, and indeed for society as a whole. Similarly, international experience has shown that attractive capital gains regimes for stock trading will stimulate investors to become more active.

Recommendation: The Government of Japan should introduce various tax measures to give individuals greater encouragement to plan their own investments and to invest their savings in the markets. Such measures should include tax-deferred schemes, attractive capital gains regimes to encourage investments, and a permanent reduction of tax on dividends.

(b) Modernizing Tax Treaties

Japan has tax treaties with 44 countries, however most of the treaties were negotiated in the 1970s through the 1990s. Despite global trends to revise the treaties in order to re-energize cross-border economic interactions, these Japanese treaties impose higher (10-15%) withholding tax rates on interest and dividends, with only a few exceptions.

With the exception of the Japan-US, Japan-UK, and Japan-France treaties which were revised in recent years, there have been no other revisions in this regard. It is clear from the Japan-US tax treaty that these revisions have considerably helped avoid the risk of double taxation, especially for pension funds, thus encouraging greater economic interaction. We expect the same impact from the Japan-UK tax treaty.

The US and the UK have a much broader network of tax treaties which contain a similar framework to that of Japan-US or Japan-UK treaties, meaning a lower withholding tax rate or exemption. Furthermore, the US and UK have their own withholding tax exemption system for non-resident investors under domestic tax law. In Asia, Japan's competitor markets see tax treaties as a means to increase cross-border economic activity: Hong Kong does not impose withholding tax on interest and dividends, and Singapore does not impose withholding tax on dividends.

Unless actions are taken, the Japanese market risks losing competitiveness with other countries in terms of cross-border economic interaction.

Recommendation: The Government of Japan should (1) accelerate negotiations to revise and "modernize" tax treaties; (2) expand the number of countries with which it has tax treaties; (3) eliminate the need for pre-approval of withholding tax reductions under treaties; and (4) streamline withholding tax reporting obligations.

(c) Improving the Tax Legislation and Administration Process

It is widely recognized that a reasonable and efficient tax regime is a key competitive factor for a financial center. Improving the tax legislation and regulation process by making it more open to input from the private sector is an important part of this.

Recommendation: The Government of Japan should establish an open process for consulting the private sector, domestic and international, on tax policy and legislative changes, and should publish draft legislation for consultation and comment by the private sector. The Government of Japan should introduce a system of publicly issued tax rulings to promulgate reasoned and consistently applied interpretations of tax law. The process of conducting tax audits should be modernized to focus on risk reviews, rather than on detailed examinations of ledgers, in the same manner recently adopted in Australia. Finally, to increase the confidence of the business community in the integrity of the system, the law prohibiting public disclosure of confidential taxpayer information should be clearly and unambiguously enforced.

SECTION 8

Human Resource Issues

(a) Introduction

The financial services industry is all about people. A good supply of skilled people is critical to become an important financial center. The January 2007 McKinsey report on the future of New York as an international financial center states that:

> "A high quality workforce is essential for any financial center, and financial sector executives rated "talent" (highly skilled professional workers) as the most important factor among 18 elements that define the success of a financial center."
> -*"Sustaining New York's and the U.S.' Global Financial Services Leadership," p.16*

The survey in the November 2005 report commissioned by the Corporation of London came to the same conclusion:

> "The availability of skilled personnel was ranked as the single most important factor in the competitiveness of an international financial centre. It was also ranked as the most important factor in the 2003 survey."
> - *"The Competitive Position of London as a Global Financial Centre," p. 18*

New York and London are the world's most important financial centers. A key reason is that they are able to attract the most skilled people from all over the world.

Overall, IBA member financial institutions find that, even today, there is a lack of supply of good local and foreign employees available to work in their firms. This problem will only grow in the future due to Japan's demographics. Moreover, as Japan's economy continues to improve and financial markets activity increases, the demand for highly-skilled human resources will grow even further.

There is an important role for the public sector in creating the appropriate "people environment" for a financial center to grow and flourish. The key issues are: improving education and professional training; liberalizing immigration policies; allowing more flexible people management; and making Japan more attractive to skilled foreign workers.

(b) Education

<u>(i) Practical English Language Skills</u>

It is important to prepare the future's financial sector workers well before they reach university.

The language of international finance today is English; it will continue to be so for many years. Therefore it is important for Japan's education system to improve the level of practical English language skills. This is especially so when one looks at Tokyo's financial center competitors in the region, such as Singapore and Hong Kong, which have a long history of using English for business. Moreover, young people in Mainland China have demonstrated a thirst to learn English; in fact many IBA member firms find that new local recruits in Mainland China generally have excellent English skills.

Recommendation: The Government of Japan should introduce measures to improve young people's practical English language skills.

(ii) "Financial Capability" Education

A second role for government is to encourage fundamental financial education in pre-university schooling. Such education will not only prepare more young people for future employment in the financial industry, but will also increase the level of "financial capability" among the population in general, which will have the additional benefit of allowing people to take more control of their personal financial decisions. The Japan Securities Dealers Association (JSDA) has a program to promote public awareness and dissemination of knowledge of securities among students and the general public, but this program is relatively small in scale.

On this subject it is interesting to note that in the UK, the Chancellor of the Exchequer, Gordon Brown, announced a major financial capability initiative in January 2007, with the Financial Services Authority playing an important role:

> The Government believes that these supply-side measures will be more effective if consumers are equipped to play an active role in the market. Raising consumers' financial capability – the knowledge, skills and motivation to manage their finances – will have lasting benefits for individuals, the financial services industry and the wider UK economy.
> - *"Financial Capability: the Government's long-term approach," page 7*

Recommendation: The Government of Japan should introduce a program similar to the UK's "financial capability" program, focusing on improving young people's basic understanding of personal financial matters.

(iii) Professional Education and Training

Other than in the sciences, in general Japan's undergraduate and graduate degrees tend to place a lower priority on preparing young people for specialized employment such as in the financial sector. This is in contrast to universities in the US, UK and other markets in Asia such as Hong Kong and Singapore. In addition, Japan has a shortage of business schools which can teach more practical and sophisticated financial education which is covered in MBA degrees in other countries. Furthermore, the number of students majoring in finance in Japan is small and the number of finance or related courses offered at business schools in Japan is still small compared to those in, for example, the US.

Education and training should not stop once a student finishes university. In Japan it is important to expand the focus on professional training with a view toward enhancing the infrastructure for financial markets in broader areas, including finance, legal services, accounting and information technology (see also Section 9 following). Other countries have found that an effective way of doing this is through a public-private initiative focused on practical training.

Recommendation: The Government of Japan and key universities should: (1) develop more practical university programs, complemented by inviting more professors and practitioners from overseas and by encouraging business/academic cooperation and bilateral cross-flow of professional people; (2) increase the number of finance and related courses at universities and actively attract students to such courses; and (3) promote exchange programs among leading professional schools, covering professors, students and practitioners.

Recommendation: The Government of Japan should enter into discussions with the financial services industry to create a public-private training center for the financial sector, based on successful international models.

<u>(iv) Practical Training/Internships</u>

Young people in the US and the UK looking to work in the financial sector have many opportunities to obtain practical experience in the field through summer internships. In Japan, although the situation is beginning to change, the number of firms that offer internships is very limited. Internships help students to better plan their careers and would increase the attractiveness of the finance sector to high caliber individuals.

Recommendation: The Government of Japan should work with the financial industry to introduce measures which would increase the number of financial sector internships.

(c) Supportive Immigration Policies which Increase the Participation of Women and Other Professionals in the Labor Force

As noted in the introduction to this section, the availability of highly skilled people is essential for a successful international financial center. IBA members find that, when it comes to obtaining visas for highly-skilled professionals, the Japanese administration is generally very responsive. Supportive immigration polices for skilled workers are a major competitive advantage for Tokyo's development as a global financial center. Indeed, the McKinsey report noted above states that current US government immigration policies are seen as a major threat to New York's future as a global financial center:

> "US immigration policies are making it harder for non-US citizens to move to the country for education and employment, which works directly against New York's competitive advantage. [...] By contrast, the free movement of people within the European Union is enabling the best people to concentrate in other financial centers – particularly London – where immigration practices are more accommodating."
> -*"Sustaining New York's and the U.S.' Global Financial Services Leadership," p. 16*

A modern labor force in an international financial center needs talented local and foreign workers. In order for such highly skilled workers to participate in the labor force the right supportive policies must be in place.

For women to take on demanding professional positions in the financial services industry, it is essential for appropriate childcare and domestic help to be available. Help from childcare nannies and domestic workers is not widely available in Japan, especially for mothers working full time. This is in contrast to other major financial centers where there is a well-developed support industry, particularly of childcare nannies and domestic helpers, many of whom are immigrant workers.

Expatriate families in Japan also find it very difficult to sponsor a domestic helper due to Japan's immigration policies, the administration of which has become much stricter in Tokyo since 2006. Only top executives are allowed to sponsor such workers.

Talented professionals - - women and men, from Japan and abroad -- would be better able to contribute to the growth of Tokyo's financial sector if there were a greater supply of childcare helpers and domestic support. The current reality, however, is that there is not an adequate supply of workers in Tokyo who can fill these needs. Many IBA member firms report that it is becoming increasingly difficult to convince professionals to move to Japan because it will not be possible to obtain childcare or domestic help. The best solution is for the government to introduce more supportive immigration policies.

Recommendation: The Government of Japan should grant more work visas to childcare helpers and domestic workers in order to support the increased participation of women and overseas professionals in the financial industry.

(d) Encouraging Flexible People Management

Tokyo's competitor markets (including New York, London, Hong Kong and Singapore) are known for allowing efficient and fair people management practices.

(i) General

As noted in the OECD report mentioned above (Economics Working Paper 526, "Strengthening the Integration of Japan in the World Economy...," November 29 2006, page 15):

> "In particular, strict employment protection legislation has been found to reduce FDI inflows, in part by raising uncertainty about costs of restructuring [...] Employment protection for regular workers in Japan is ranked as the tenth strictest in the OECD area [...]"

IBA members believe it is important to have greater flexibility in managing their labor force in order to remain competitive in the dynamic financial services industry where skill demands can change rapidly.

Recommendation: The Government of Japan should allow employers greater flexibility in managing their workforce.

(ii) Updating Labor Legislation to Reflect Service Industry Employment

The *Labor Standards Law* maintains the concept of "manager" versus line staff. This concept is somewhat outdated in the context of the financial services industry. For example, IBA member firms employ many regular staff who are highly-skilled professionals earning very good salaries, but who do not have any supervisory responsibilities. Under the *Labor Standards Law* such employees would not be considered managers and may therefore be eligible for overtime pay, even though they are very well compensated by the standards of the average employee.

Recommendation: The Government of Japan should introduce the so-called "white collar exemption" to overtime work and compensation rules.

(e) Attracting Overseas Professionals

In the competition for top talent among financial centers, personal income tax rates play an important role. Tokyo is competing as a financial center against other markets in the region, particularly Hong Kong and Singapore, where the maximum income tax rates are 16% and 20%, respectively. In addition, both Hong Kong and Singapore offer exemptions for income earned outside of their market and for most foreign investment income, which results in substantially lower effective tax rates for most foreign workers. Japan's highest marginal personal income tax rate is approximately 50%, including residential tax rates. Following the 2006 changes noted below, this rate applies to more foreign workers than ever before.

In 2006, Japan changed its tax policy related to non-Japanese residents. Now, non-Japanese, non-permanent residents must declare all worldwide income if they reside in Japan for more than five years within a period of ten years. In the IBA's opinion, this policy is already having a negative impact on Tokyo's efforts to become a more important financial center, for the following reasons: (1) it is discouraging foreign financial services professionals from developing long-term experience and knowledge of the Japanese market, due to the financial consequences of staying in Japan for more than five years; and (2) it is encouraging firms to find permissible ways to create Japan-related jobs outside of Japan, especially in Asia, which results in a loss of personal and corporate income tax revenue to Japan.

On the surface there may appear to be gains in personal income tax revenue from the 2006 tax change. However, those gains are far outweighed by the negative impact on Tokyo's attractiveness to skilled foreign professionals, as well as by the loss to the Japanese treasury arising from business units being transferred out of Japan.

Recommendation: The Government of Japan should revert to the policy in place until 2006 of only taxing Japan-sourced salary income of non-Japanese residents who stay in Japan for up to five years, in order to be competitive with other financial centers in the Asian region.

SECTION 9

Other Supportive Measures to Increase Tokyo's Importance as an International Financial Center

(a) Enhancing the Professional Services Community

In addition to the regulatory environment, a fair, flexible and transparent legal system has a significant impact upon the level of confidence global investors and intermediaries have in a market. The quality of the judiciary, and the legal and accounting professions are also relevant factors. The IBA recognizes that Japan has a highly developed and well respected judicial and legal system, but considers that additional steps could be taken to further enhance Tokyo's competitiveness as a global financial center.

As noted in Section 8, the November 2005 report commissioned by the Corporation of London ("The Competitive Position of London as a Global Financial Center") emphasizes the importance of the availability of skilled personnel. IBA member firms have encountered great difficulty in hiring highly trained Japanese lawyers to work in their financial institutions. In addition, there are insufficient legal services personnel within Japanese law firms capable of working on complex cross-border financial transactions.

Similarly, the accounting profession plays a key role in a global financial center. Japan lacks an adequate supply of internationally-qualified professional accountants.

Recommendation: The Government of Japan should introduce further measures to substantially increase the number of lawyers admitted to the Bar (in line with recommendations of the Justice System Reform Council) and to expand activities of international law firms in Japan, and introduce measures to enhance expertise of legal professionals relating to international finance such as practical courses at law schools. In addition, the Government of Japan should work with the relevant authorities to increase the supply of internationally-qualified professional accountants.

(b) Improving the Legislative and Policy Process in General

As noted in Section 3 and Section 7(c) above, there is an overall need to increase the level of consultation with the private sector on legislative and policy matters.

Recommendations: The Government of Japan should: (1) introduce open and effective consultation with the private sector and interested parties; (2) publish laws and regulations (including drafts) at an early stage to allow greater preparation before they come into effect; and (3) include reasonable transition periods (particularly for tax legislation).

(c) Improving Airport Services

Tokyo benefits from excellent public infrastructure including the best transport system among the world's "mega-cities." In today's world, however, efficient and convenient airports are regarded as a key factor in influencing international travelers' attitudes toward business and investment. One need only consider the positive impact that the airports in Hong Kong and Singapore have had on facilitating travel and investment from abroad.

It is well known that the time and effort involved in traveling to and from Narita airport has had a detrimental impact on international business travelers' interest in coming to Japan. That said, the addition of the second runway has improved service and flight frequency, and the new Narita Terminal 1 South Wing has impressed many travelers.

We note that with the addition of the fourth runway at Haneda, currently scheduled for 2010, it will have the capacity to offer more international flights, other than charters and flights to Seoul (Gimpo) as is currently the case.

Recommendation: The Government of Japan should strongly encourage Haneda Airport to significantly increase the airport's capacity for international flights. In addition, the Government of Japan should encourage cost-effective ways of reducing the traveling time to Narita airport.

International Bankers Association

As of February 1, 2007

Financial services groups* (17)	
ABN AMRO	HVB Group
Bank of America, N.A.	JPMorgan Chase
Barclays Bank Group	Royal Bank of Canada
BNP Paribas	Société Générale
CALYON Group	The Bank of New York
Credit Suisse Group	The Royal Bank of Scotland
Deutsche Bank Group	UBS AG
Dresdner Bank Group	WestLB Japan
HSBC Group Japan	
Commercial banks (32)	
American Express Bank Ltd.	Dexia Credit Local
Australia and New Zealand Banking Group Ltd.	ING Bank N.V.
Banco Bilbao Viscaya Argentaria S.A.	Kookmin Bank
Banco do Brasil S.A.	Lloyds TSB Bank plc
Banco Itau S.A.	Metropolitan Bank and Trust Company
Bangkok Bank	National Australia Bank Ltd.
Bank of Communications	Oversea-Chinese Banking Corporation Ltd.
Bank of India	Philippine National Bank
Chinatrust Commercial Bank	PT. Bank Negara Indonesia (Persero) Tbk
China Construction Bank	Rabobank Nederland
CIMB Bank Berhad	Standard Chartered Bank
Citibank, N.A.	State Bank of India
Commerzbank A.G.	The Bank of Nova Scotia
Commonwealth Bank of Australia	Union de Banques Arabes et Françaises
DBS Bank Ltd.	United Overseas Bank Ltd.
DEPFA Bank plc	Wachovia Bank, National Association
Securities firms (11)	
Bear Stearns (Japan), Ltd.	Lehman Brothers Japan Inc.
CIBC World Markets (Japan) Inc.	Macquarie Securities (Japan) Ltd.
Goldman Sachs Japan Co., Ltd.	Merrill Lynch Japan Securities Co., Ltd.
ICAP Totan Securities Co., Ltd.	Morgan Stanley Japan Securities Co., Ltd.
IXIS Corporate & Investment Bank	TD Securities Inc.
KBC Securities Japan	
Representative offices (5)	
Banco Santander Central Hispano	Landesbank Baden-Württemberg
CIC Banques	Swedbank
Euroclear Bank	
Advisors (8)	
Anderson Mori & Tomotsune	KPMG AZSA & Co.
Baker & McKenzie	Promontory Financial Group
Herbert Smith	Sidley & Nishikawa
KFi Financial	White & Case

** With commercial banking and securities entities in Japan*